

Covid 19 Emergency Response and Health Systems Preparedness Project and the Second Additional Financing for the Covid 19 Emergency Response and Health Systems Preparedness Project - 2021

The audit of financial statements of the Consolidated Financial Statements of the Covid 19 Emergency Response and Health Systems Preparedness Project and the Second Additional Financing for the Covid 19 Emergency Response and Health Systems Preparedness Project for the year ended 31 December 2021 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 52 of the World Bank Report No.PAD3852 dated 02 April 2020 and Section 71 of the World Bank Report No. PAD 4442 dated 22April 2021. My comments and observations which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry of Health is the Executing Agency and the Project Management Unit (PMU) is the Implementing Agency of the Project. The objectives of the Project are to prevent, detect and respond to the threat posed by Covid-19 and strengthen national systems for public health preparedness in Sri Lanka. As per the Loan Agreements, the estimated total cost of the Project was USD 209.11 million equivalent to Rs.41,717.45 million and out of that USD 61.51 million equivalent to Rs.12,271.25 million was agreed to be financed by International Development Association and USD 147.60 million equivalent to Rs.29,446.20 million was agreed to be financed by International Bank For Reconstruction and Development. The Project had commenced its activities on 04 April 2020 and scheduled to be completed by 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 02 of my report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Project as at 31 December 2021, consolidated receipt and payment and its consolidated cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiencies	Amount Rs. Million	Responses of the Management	Auditor's Recommendations
(a) According to the information submitted for the audit by the Department of External Resources, the loan interest of Rs.242.6 million and commitment charges of Rs.2.7 million charged by the Funding Agency as at 31 December 2021 had not been accounted and also in relation to the Loan Agreement No. 9085 USD 39,695.03 equivalent to	253.29	Agreed	This error should be corrected in financial statements prepared for the next year.

Rs.7.99 million charged by the Lending Agency on 15 November 2021 had not been identified and accounted.

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| (b) | The payments of Rs.161.5 million could not be satisfactorily vouched, due to the unavailability of written evidences to the audit such as goods receipt orders, inventory certificates, work done reports, payment certificates and procurement decisions, cash receipts related to payments of Rs.32.3 million and vouchers for payments of 21 payment totaling to Rs.36.0 million. In addition, the information about the progress of the constructions, renovations and repairs carried out by the project had not been submitted for the audit by 04 November 2022. | 229.8 | Agreed | Written evidence confirming these costs should be submitted. |
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2.2 Non- Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a) Sections 20(1) and 20(2) of the Value Added Tax Act No. 14 of 2002.	Value Added Tax amounting to Rs.8.3 million had been paid during the year under review on 16 occasions without obtaining a formal tax invoice.	Agreed with the observation.	Value Added Tax should be paid on formal tax invoice as per the Act.
(b) Section 8(1) of the Value Added Tax (Amendment) Act No. 09 of 2021.	Medical items deal with the Covid-19 pandemic had been exempted from Value Added Tax (VAT) with effect from 20 May 2020. However, contrary to those provisions, it was revealed during a sample audit that a total of Rs.96.3 million had been paid as VAT to 51 suppliers for the purchases made in the years 2020 and 2021.	Agreed with the observation.	These taxes should be recovered.

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| (c) | The Financial Regulation 371(5) | The ad hoc sub imprest should be settled within 10 days after the completion of the work. However, the ad hoc sub imprest amounting to Rs.2.5 million issued in 33 occasions had not been settled by 31 December 2021. | Agreed with the observation. | The Financial Regulation should be followed. |
| (d) | Paragraph 9.3 of the Department of Management Services Circular No. 1/2019 dated 05 March 2019 | The Project Steering Committee Meeting had not been conducted As per the Circular | Agreed with the observation. | Project Steering Committee meetings should be held as per Circular |
| (e) | Circular No. MOFP/ERD/2007/2 dated 07 August 2007 issued by the Ministry of Finance and Planning, | Although the annual financial statements of the project should be submitted for audit within two months of the end of the financial year, the financial statements for the year 2021 were submitted for audit on 25 August 2022 after a delay of approximately 06 months. | Agreed with the observation. Necessary steps have been taken to submit the Financial Statement for the 2022 on or before the stipulated date. | Financial statements should be submitted on the due date. |

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
(a) According to the Agreements reached with the Ministry of Health and the United Nations Children's Fund (UNICEF) for the purchase of medical equipment and medical supplies, a sum of Rs.5,550.4 million equivalent to USD 29.97 million in 03 occasions in the year 2020 and Rs. 532.94 million equivalent USD 2.66 million in the year 2021 had been paid to UNICEF. The following observations are made in this regard.		
(i) The approvals obtained for determination for the financial limit had not been submitted for audit.	The Cabinet approval has been obtained on 01.04.2020 01 CP No. 20/0694/201/016.	Relevant approval should be obtained for these purchases.

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| <p>(ii) In the years 2020 and 2021, UNICEF had purchased 17,756,669 units of 90 items of medical equipment and medical supplies at a total cost of Rs.4,357.99 million from local suppliers had been handed over to the Medical Supplies Division. All the medical equipment and medical supplies that had been received to the medical supply department were considered as donations and were taken into the stock books, so they were entered into the medical supplies information management system without any value.</p> | <p>The Director MSD and PD have been instructed to address this issue without further delay.</p> | <p>Necessary corrections should be made.</p> |
| <p>(iii) Out of medical equipment and medical supplies mentioned in paragraph (ii) above, 9,619,971 units of total cost of Rs.2,565.90 million and out of medical equipment and medical supplies mentioned in paragraph (iv) , 397,798 units of total cost of USD 1.55 million had been accepted as donations by the medical supply division. Therefore, they were not properly inspected and accepted and as a result it was not confirmed that these medical equipment and medical supplies were supplied as per the ordered standard.</p> | <p>Agreed with the observation. .</p> | <p>The necessary information to confirm this expenditure should be submitted to the audit.</p> |
| <p>(iv) According to the final account report submitted by UNICEF on 16 December 2021, USD 2.04 million had remained out of USD 32.64 million paid in advance. However, the rest of the money was not recovered till 18 October 2022.</p> | <p>Agreed with the observation.</p> | <p>The financial statements provided should be checked and the correctness confirmed and the remaining amount should be collected promptly.</p> |
| <p>(b) According to the agreements reached with the Ministry of Health and the United Nations Office for Project Services (UNOPS) in 2021 to purchase medical equipment and medical supplies within a maximum financial limit of USD 18.35 million by spending project funds, the UNOPS had been paid a sum of USD 18.35 million as an advance during the year under review. The following observations are made in this regard.</p> | | |
| <p>(i) The information about the basis on which the financial limit was determined were not submitted for audit.</p> | <p>Cabinet approval has been obtained on 01.04.2020 01 CP No. 20/0694/201/016.</p> | <p>Covering approval should be obtained for these purchases and relevant approval should be submitted for audit purpose.</p> |

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| <p>(ii) During the year under review, UNOPS had provided medical equipment and medical supplies with a total cost of Rs.777.67 million. However their unit cost was not stated in US Dollars. Therefore, it was not possible to check whether the amount of equipment to be received was provided within the agreed financial limits.</p> | <p>The UNOPS has agreed to submit the unit price in terms of USD for the local supply.</p> | <p>This information should be submitted to the audit.</p> |
| <p>(iii) 12 CRRT machines of HE 440 type had been provided by UNOPS to the Biomedical Engineer Division during the year under review. Out of those 12 machines, 02 machines were procured within seven days at a cost of USD 17,667.84 equivalent to Rs.3.52 million each by mentioning that those 2 machines were very urgent. The remaining 10 machines were procured within 30 days at a cost of USD 14,891.47 equivalent to Rs.2.97 million each. Accordingly, Rs.1.10 million equivalents to USD 5,552.74 were overpaid for 02 machines which were procured as very urgent need. However, it was observed that there was no such urgent requirement for the 02 machines due to those 2 machines had been distributed to the respective hospitals after 30 days since the date to which the Biomedical Engineer Division received them and those 2 machines might be purchased at same price of which the remaining 10 machines were purchased. Further, the information about the person who was decided above procurement as a very urgent was not submitted for audit.</p> | <p>UNICEF has decided to purchase two machines on a split procurement basis by breaking two items due to the emergency situation. Required clarifications will be obtained and reply will be given in due course.</p> | <p>This should be investigated and necessary action should be taken accordingly.</p> |
| <p>(iv) Out of 2,100 Yuwell Oxygen Concentrators which were provided by UNOPS during the period of May and August 2021 at a total cost of Rs.364.65 million, 462 Yuwell Oxygen Concentrators were not distributed as of 29 June 2022 and were stored in the Biomedical Engineering Services Division.</p> | <p>Agreed with the observation.</p> | <p>These equipment needs should be identified and distributed.</p> |
| <p>(v) According to the Agreement, all costs up to the delivery of medical equipment and medical supplies to the Ministry's warehouse should be borne by the UNOPS and the two parties had agreed to be exempted from taxes including customs fees to be borne during the importation</p> | <p>Agreed with the observation.</p> | <p>This should be investigated and necessary action should be taken accordingly.</p> |

of goods. However, the Project had paid customs fees of Rs.45.78 million and air fares of Rs.180,178 for the medical equipment supplied during the year 2021.

- (c) During the year under review, a sum of USD 4.11 million equivalent to Rs.824.26 million was paid directly from the project's funds to the respective suppliers for the purchase of medical supplies. The following observations are made in this regard.
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| (i) | Agreements for these direct payments, approvals, procurement methodology and related documents as well as receipts for cash receipts were not submitted for audit. | Agreed with the observation. | Covering approval should be obtained for these purchases and relevant approval should be submitted for audit purpose.. |
| (ii) | In 02 cases, 05 Good Received Notes issued for medical supplies purchased from 02 private companies with cost of Rs.192.05 million were given as the name of the supplier as United Nations Children's Fund (UNICEF). Reasons for this had not been submitted for audit. | Agreed with the observation. | This should be investigated and necessary action should be taken accordingly. |
| (iii) | In 03 cases, the medical supplies purchased for an amount of Rs.243.08 million from 03 private companies were not provided on the agreed date. However, the late fees had not been charged according to the order/procurement conditions. | Agreed. Appropriate action will be taken | -Do- |
| (iv) | The sales invoice and good received note related to the payment voucher No.1271(iii) dated 04 October 2021 amounting to Rs.53.89 million and the Good Received Note related to the payment voucher No.1271(vi) dated 04 October 2021 amounting to Rs.53.4 million had not been submitted for audit. | Agreed. Required documents will be submitted as soon as possible. | -Do- |
| (v) | The original copy of the sales invoice related to payment voucher No.1271(viii) dated 04 October 2021 amounting to Rs.206.25 million had not been submitted for audit. | Agreed. Required documents will be submitted as soon as possible. | -Do - |

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| (d) | During the year under review, on 29 occasions, project had paid Rs.276.74 million for the purchase of medical supplies. However, according to the receipts, it was observed that these medical supplies were received as donations. It was also observed that these goods were accepted without proper inspection. | Agreed with the observation. . | -Do- |
| (e) | Late fees had not been charged as per the contracts and tender conditions in regarding with the medical equipment purchased at a cost of Rs.68.56 million during the year under review which was delayed to supply in due time. | The matter will be investigated and reported later. | This should be investigated and necessary action should be taken accordingly. |
| (f) | Although the late fees charged on 29 March 2021 were Rs.195,254, a sum of Rs.402,065 had been refunded on 10 November 2021. Accordingly, the overpaid amount was Rs.206,811 and the reason for refunding the late fees and the approval received for the same had not been submitted for audit. | The matter will be investigated and reported later | -Do- |
| (g) | Two cabs which were purchased at a cost of Rs.18.13 million to be delivered to 02 offices of the Medical Officer of Health during the last year have not been delivered to those offices by 28 July 2022. | Agreed. Ministry of Health has instructed to deliver two cabs to relevant offices. | These 02 vehicles should be delivered to the designated offices expeditiously. |
| (h) | Last year, 805 motorcycles which were purchased at a cost of Rs.239.48 million were given to public health inspectors. However, the written agreements reached with those officials and the proofs of confirming whether or not motorcycles were given to those officials before had not been submitted for audit by 23 September 2022. | Agreed. | Agreements should be reached between the two parties. |