

## **Health Systems Enhancement Project – Additional financing - 2022**

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The audit of financial statements of the Health System Enhancement Project – Additional Financing for the year ended 31 December 2022 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 provision in the loan and Grant Agreement No- L 4121-SRI and No G9222 –SRI dated 07 October 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan and Grant Agreement, the Ministry of Health is the Executing Agency and the four provincial councils of Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agencies of the Project. The objectives of the Project are meet the funding shortfall due to above reallocation to implement the original scope of the original project, meet further increasing demands due to the ongoing third wave of COVID -19 pandemic management, support developing of at least one secondary care facility (including for COVID- 19 case management) in each of the original nine project districts that will be developed as the cluster apex hospitals, expanded the facilities available for distance and e- learning given the rising COVID- 19 situation in the country, extend the project closing date by 24 months or up to November 2025 to successfully implement and achieve the outcomes of the scaled up project and access the Japan Fund poverty Reduction for a Grant of US\$3 million to meet the COVID – 19 related financing gaps. As per the Loan and Grant Agreements, the estimated total cost of the project was US\$ 123 million, equivalent to Rs. 24,538.5 million and out of that US\$ 113 million equivalent to Rs.22,543.5 million was agreed to be financed by the Asian Development Bank The balance amount of Rs.1,995.0 million is expected to be financed by the Government of Sri Lanka. The project had commenced its activities on 17 November 2021 and scheduled to be completed by 30 November 2025.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 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 the project's internal control.
- 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

<b>Accounting Deficiency</b>	<b>Amount Rs. million</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Late penalty (LD charges) was credited back to expenditure through Reverse Entries, without disclosure of a note.	14.5	In the year 2022 as there is no liability for the repayment of these deductions, the amounts have been credited to the respective expenditure accounts through the journal entries and shown at the actual cost incurred for the items.	Should be disclosure of this through a note in the account.

### 2.2 Non Compliance with Laws, Rules and Regulations

<b>Reference to the Laws Rules and Regulations</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a) Financial Regulation No. 753(1) and 753(2)	The Issuing Officer shall prepare the issue order in General Form 141 and the receiving officer should prepare a receiving order in General Form 219. However relevant officials had not applied this rule for medical equipment valued at Rs. 2,597 million	The goods were received by the Division of Biomedical Engineering Division and Goods received notes were duly issued and stock registers were updated by the Division of Biomedical Engineering Services. The Equipment related to the Covid care received by the Division of Biomedical Engineering Services and issues are done by them as per the requirement and we had no control over the issues of the items.	Should comply with the Financial Regulation
(b) Section 9.3 of Management Services Circular No. 1/2019 dated 05 March 2019	The Project Steering Committee should meet at least once every two months; however the committee had met only on two occasions during the year under review.	We had two steering committee Meetings for the year 2022. Due to the difficulties had during the period we were unable to have steering committee meetings every quarter of the year	Should comply with instruction of the Circular.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

(a)

Component	Activity	As at 31 December 2022		Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Units	Units		
	Development of physical infrastructure of 42 Primary Medical Service Units and District Health Service Units.	42	i. 32 Units under the evaluation step. ii. scope had to be revised of 10 units.	No physical and financial performance in this project.	economic crisis and the available funds were not sufficient

#### Response of the Management

In the year 2022, the material prices were increased drastically with the economic crisis and the available funds were not sufficient for the development of all forty-two facilities and project had to seek the possibility of scope changes in nine sub projects to minimize the cost. After the scope change process some Sub Projects are in the bidding process and few sub project have to stop due the non-availability of sufficient funds.

#### Auditor's Recommendations

The project steering committee should be assembled in due time and necessary activities should be done to achieve the desired objectives

(b)

Component	Activity	As at 31 December 2022		Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Units	Units		
	10 units of Primary Medical Service Units and District Health Service Units	10 units	Nil	physical and financial performance had not been done	On the request of the contractors, the price escalation provisions

#### Response of the Management

On the request of the contractors the price escalation provisions were included for the short-term contracts after obtaining approval from Asian Development Bank. This process has taken time and resulted delays in the awarding contracts.

#### Auditor's Recommendations

The project steering committee should be assembled in due time and necessary activities should be done to achieve the desired objectives.

### 3.2 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	25 ICU ventilators at Rs. 90 million had been purchased on 27 December 2021 and Seven of them amounting Rs.25 million were given to Sir John Kotalawala Defense University for temporary use however those machines were at John Kotalawala Defense University for one year and 9 months. The relevant machines should have been installed and provided for public use according to the identified needs.	The responsibility of the distribution of the items as per the requirements of the hospitals are with the Division of Biomedical Engineering services and project has no control over the medical items.	As the machines purchased by the project for hospitals, the related machines given to Kotalawala Defense University for temporary use should be taken back immediately and the project should do the necessary work to deliver those machines to the necessary hospitals.
(b)	Out of the 25 ICU ventilators, purchased from a private institution in the year 2021 on the basis of payment after providing and installing the relevant machines, 05 machines were given to the National Hospital and one machine given to the biomedical unit had not been installed by 08 May 2023. However, a bank guarantee with a value of Rs. 4.3 million was obtained on 15 March 2022, and the final payment related to this transaction was Rs. 18 million ,which was paid on 24 March 2022. It was observed that the period of this bank guarantee had ended on 23 April 2023 and since no arrangements were made to extend its validity period, the government could incur a loss.	The payment has been made on the written recommendation of the Director of Biomedical Engineering Service on the basis of the installation will be done when the sites are ready for the machines.	Do proper planning and action should be taken to minimize the loss.