

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 - 2022

The audit 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 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 section 52 of the World Bank Report No. PAD 3852 dated 02 April 2020 and section 71 of the World Bank Report No. PAD 4442 dated 22 April 2021. 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 Agreement 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 Agreement, the estimated total cost of the Project was US\$ 209.11 million equivalent to Rs. 41,717.45 million and out of that US\$ 61.51 million equivalent to Rs. 12,271.25million was agreed to be financed by International Development Association and US\$ 147.60 million equivalent to Rs. 29,446.20 million was agreed to finance by the 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 Basis for Qualified Opinion section 2.1 of my report, the accompanying consolidated 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 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 Consolidated Financial Statements

Management is responsible for the preparation of consolidated 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 consolidated 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 Consolidated Financial Statements

My objective is to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Consolidated Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency	Amount Rs. million	Response of the Management	Auditor's Recommendations
The Sri Lanka Army had been spent on behalf of the project for the construction of buildings and purchasing equipment in the years 2020 and 2021 to control the spread of COVID – 19 disease, However the fixed asset registers or physical verification reports relating to these constructions and purchases had not been submitted for the audit.	859	Sri Lanka Army informed in writing that these equipment and construction items were accounted as an asset by the Sri Lanka Army.	Evidence should be submitted to the Audit

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendations
(a)	Financial Regulation 139(4)	Although the paying officer is responsible for obtaining a formal receipt for every payment. However It was revealed in the sample audit inspection that the formal receipts had not been obtained for Rs 45 million paid to the Sri Lanka Transport Board for the buses used for transporting health personnel during the Covid period.	The letter from the respective depot with the signatures of the authorized officer has been obtained.	Should be followed Financial Regulation
(b)	Financial Regulation 262 (2)	All paid vouchers and supporting documents should be stamped "PAID" and the date of payment recorded in the cash book should also be stamped. However it was observed during the sample audit that the vouchers submitted for audit by the project had not been stamped as per the above section.	Agreed. Actions will be taken to comply with Financial Regulations No. 262 (2).	Should be followed Financial Regulation
(c)	Financial Regulation 267(II)	The salary or remuneration of an employee has been paid to the contributor himself and his signature should be recorded in the relevant payroll sheet or the payroll list, however the arrangements were not followed in respect of the salaries paid to officials during the year under review amounting to Rs15 million.	A separate pay list was maintained and it can be submitted to the Audit.	Should be followed Financial Regulation

- | | | | | |
|-----|---|--|--|---|
| (d) | Financial Regulation 371 (2) (b) | The sub imprest should be settled immediately after the completion of the work assigned to it, however as on 31 December of the year under review, advances valued at Rs.2 million had been given on 20 occasions. Settlement was not done. | Please note that these advances are made under the emergency situation of the country due to the outbreak of Covid 19 pandemic, where personal interactions are restricted. | Should be followed Financial Regulation |
| (e) | Financial Regulation 396 | The action had not been taken In respect of 02 overdue cheques amounting to Rs.45,000 | Agreed. Action will be taken as per Financial Regulation No. 396. | Should be followed Financial Regulation |
| (f) | Commissioner General of Inland Revenue No. GIR/2019/39/CINSA (II) and paragraph 02 of the circular dated July 09, 2019, | Arrangements are made to confirm whether the relevant supplier is a VAT registered person and whether his VAT registration number is active before paying the VAT. Although it should be done, a total of Rs. 175 million was paid to suppliers on 9 occasions without complying with the said provisions. | We have verified the registration number of the suppliers Future Automobiles (Pvt) Limited, Suren Cooke Agencies (Pvt) Limited, and Abans Pls. The VAT registration confirmation letters are attached (03). Other Institutions are verified as active status during the invoice dates. | Should be followed relevant Circulars. |
| (g) | The Section 9.3 of the Management Circular No.01/2019 dated 05 March 2019, | The Project Steering Committee should meet at least once every two months;howeverthe audit revealed that the committee had not met at any time during the year under review. | Agreed with the observation, Project Steering Committee was appointed on 19.10.2022 and scheduled to be held on November 2022. Due to unavoidable. | Should be followed relevant Circulars. |
| (h) | According to the original agreement signed on 20 May 2020 with the Ministry of Health and the United | The project will provide medical equipment within a maximum limit of USD 35.24 million. Accordingly, Rs.5,550,000 equivalent to USD | We have already taken all the necessary steps to get the refund of USD 2,038,315.68 from UNICEF. Application | Should be complied with the agreement. |

Nations children's fund (UNICEF) and an amendment signed on 31 May 2021, 30 million in the year 2020 and USD 2.66 million equal to Rs.533 million and accumulated USD 32.64 million equivalent to Rs. 6,083 million had been paid as advances. According to the final account submitted by UNICEF on 16 December 2021, the Covid-19 Emergency Response and Health System Preparedness Project paid USD 32.64 million to UNICEF in connection with the procurement of medical equipment. Unable to obtain balance amount of USD 2.03 million equal to Rs740 million so far. The above advances were accounted as expenditure.

3. Physical Performance

3.1 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Due to the fact that the Covid-19 Emergency Response and Health System Preparedness Project did not register for the payment of employee trust funds on the due dates, a surcharge of Rs. 44,000 should have been paid to the Employees' Trust Fund. During the audit it was observed that this was an idle expenditure	Agreed. The Project has been established on 06.05.2020 as Covid-19 Emergency Response and Health Systems Preparedness Project under the circumstances of Covid – 19 emergency situation the registration of the Employees Trust Fund was delayed until 17.11.2021 under the prevailing situation in the country during the pandemic period.	The loss should be recovered from the responsible persons.

- (b) Based on the pro-forma invoices for the drugs purchased by the State Pharmaceutical Corporation in the year 2022 using the funds of the project, Rs. million 7,660 had been paid. However t according to the drug distribution orders, some of the drugs had been received in the year 2023Accordingly, it was observed that the Commercial Invoice and GRN were given after some time of payment.
- Please also note that Payments should be done based on the original documents. mechanism of said procurement is based on provision granted on procurement under the emergency situation of the country. Clarification made by the State Pharmaceutical Corporation is attached herewith.