

## **Health Systems Enhancement Project – Additional financing - 2023**

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The audit of financial statements of the Health System Enhancement Project – Additional Financing for the year ended 31 December 2023 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 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Physical Performance

### 2.1 Unutilized Resources

<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
According to the performance report prepared for the year under review, Rs. 1324.23 million had been allocated for 07 activities, however the related activities could not be performed during the year under review.	Under the Health System Enhancement Project (Additional Financing), the Japanese Fund for Prosperous and Resilient Asia & Pacific (JFPR) has given a grant of USD three million. The activities were planned for the year 2023 and allocations were requested in 2023 for these activities. However, the planned activities were delayed due to various reasons and current status is given below.	Tasks should be completed within the stipulated time period.

### 2.2 Contract Administration

<b>No</b>	<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
(a)	The estimate value of 05 projects in Uva province was Rs. 243.5 million however the contract value was Rs. 378 million which is 55 percent more than the total estimate value, and the estimate value of 03 projects in Sabaragamuwa province was Rs. 21 million, however the contract value was Rs. 25.6 million which is 22 percent more than the total estimate value.	All these estimates were prepared by the Design and Supervision Consultants (RDC) prior to the economic crisis in the year 2022. The bids were invited at the peak of the economic crisis and all the bids were submitted by the bidder after considering the unprecedented increase in the material prices and bids were much higher than the engineers estimate. However, the Engineers Estimates have been revised considering the material price fluctuations during the period and were compared with the bid prices before awarding the contracts to lowest responsive bidders. The price variations have been justified in the Technical Evaluation Report submitted for these contracts and the awarded contract values were par with the revised engineers estimates.	In the case of a revision of estimates, re-bid should be call.
(b)	According to the performance report of the year under reviewed , Rs.837.68 million had been allocated for the civil works of 42 hospitals under the development of primary health services in relation	Under Health System Enhancement Project (Additional Financing) the project has planned to develop infrastructure of forty-two Primary Medical Care Units (PMCU) & Base Hospitals (BH) in four province and funds were allocated for these civil works contracts. However, delay in awarding the	Action should be taken to achieve the target

to the four provinces. However, only 11 percent of the allocation had been utilized during the year under review.

civil works contracts and slow progress of the construction work due to the various issues faced by the contractors has resulted underutilization of the allocation for the year. However, we have completed the work of nine hospitals and work is ongoing in fourteen hospitals. The procurement process in progress in twelve entities and the decision has been taken to remove the seven entities from the plan due to lack of funds.

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| <p>(c) Rs. 1010.14 million had been allocated for 127 Field Health Centers (FHC) in the year under review and only Rs. 56.01 million had been utilized.</p> | <p>The project has planned the development of one hundred twenty-seven Field Health Centers in the four provinces. These are mostly refurbishment &amp; improvements and delays in awarding and slow progress has resulted underutilization of the funds in the year 2023. However, we have completed twenty-nine Field Health Centers and works in progress in nine centers. Six of the selected Field Health Centers has been already developed using other funding sources. Procurement process is ongoing in sixty-three Field Health Centers and we have removed twenty-one centers from the list due to lack of funds.</p> | <p>Action should be taken to achieve the target</p> |
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### 2.3 Matters in Contentious Nature

<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
<p>According to the decision of the Cabinet of Ministers No. AMP/12/1602/509/005-11 dated 05, December 2012 the annual requirement of surgical gauze for the government hospitals is to be purchased from the local manufacturers, However, in the year 2022 the Medical Supply Division had arranged to import 03 million meters of surgical gauze worth Rs. 268 million through the Health System Enhancement Project.</p>	<p>The Medical Supplies Division has decided to procure twelve million meters of Gauze Absorbent through the Health System Enhancement Project and approval was granted on 05<sup>th</sup> August 2022 by Additional Secretary (Procurement). However, at the meeting chaired by Hon. Minister the order was temporarily suspended on the request from the local suppliers of the Gauze Absorbent. The meeting held on 19<sup>th</sup> August 2022 at the Ministry of Health, a decision was taken to procure three million meters of Gauze Absorbent as a buffer stock of three months to get prepared to face potential future challenges.</p>	<p>Should be complied for the rules and regulations.</p>