

Health Systems Response – AIIB Project - 2023

The audit of the financial statements of the Health System Response Project –AIIB 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 provisions in the Loan Agreement No. L0081A and No.L0124A dated 18 July 2022 respectively entered in to between the Democratic Socialist Republic of Sri Lanka and the Asian Infrastructure Investment 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 Agreement , the Ministry of Urban Development and Housing and the Ministry of Defense are the Executing Agencies and After Restructuring, the Ministry of Health is the executing Agency and the Health System Enhancement Project Management unit is the implementing Agency .The objectives of the Project are to support for the import and purchase of critical medicines and other medical supplies including lifesaving drugs,vaccines, surgical and therapy consumables medical equipment and laboratory re-agents. Consultancy services and technical assistance to support to procurement activities monitoring and evaluation and project management may also be financed. As per the restructuring Loan Agreement the estimated total cost of the project was US\$100 million as US\$ 70 million from the Colombo Urban Regeneration project and US\$ 30 million from the Reduction of Landslide Vulnerability by Mitigation Measures Project equivalent to Rs.35,000 million was agreed to be financed by the Asian Infrastructure Investment Bank. The project had commenced its activities on 18 July 2022 and was scheduled to be completed by 31 December 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 2023, the statement of expenditure and its cash flows for the year 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 the 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 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Audit Issue	Management Response	Auditor's Recommendation
(a)	Letter dated 30, June 2022 and No. DMS//7777HSEP/VO/II department of Management Services	According to the letter of the Department of Management Services, only two senior procurement officers were approved to manage the emergency procurement, however on the contrary to that circular two additional senior procurement officers were appointed and Rs. 570,681 had been paid as wages and emoluments from September to December of the year under review.	The staff required to carry out procurement activities in the project was not adequate considering the large volume of procurement packages and Ministry of Health was not able to provide staff internally to the project for the procurement activities.	Should be complied with Rules and Regulations
(b)	Section 9.3 of Management Department Circular No. 01/2019 dated 5, March 2019,	The Project Steering Committee should meet at least once every two months, however the committee had met only one session in the year under review.	The Project Steering Committee Meetings were decided and coordinated by the Ministry and we were able to conduct only two Project Steering Committee meetings due to the prevailing situation of the year 2023. However, number of progress review meetings with the participation of the Ministry of Health & Ministry of Finance officials and three mission meetings were held during the year 2023.	Should be complied with Rules and Regulations
(c)	Financial Regulation No. 835 (2) (a)	When renting a building, the Head of the Department should be satisfied that the building is required for a purpose within the scope of the provision in terms of Finance Regulation and should be confirmed that there are no suitable Government buildings	The project had discussions with Additional Secretary (Procurement) to obtain space from the MediHouse Building & Additional Secretary (Pharmaceuticals Production, Supply & Regulation) for the Space from State Ministry	Should be complied with Rules and Regulations

for that purpose. However while renting a building, it was not considered whether there is space available in the office premises owned by the Ministry or currently obtained on a rent basis.

premises. However, no positive response received for our request.

(d) Financial Regulation No. 835 (c)	The procurement notice was published on the relevant website dated 28February 2023 it was stated that the final lease value was based on the valuation of the GovernmentValuation Department, however no valuation was obtained from the Government Valuation Department while considering the lease value , It was observed that the conditions mentioned in the procurement notice and the Financial Regulations were in violated.	We have obtained the valuation for the premises in the first bidding process and we had to abandon the process due to lower value of the valuation given by the Valuation Department. At the meeting held on 02 nd March 2023 presided by the Secretary of the Ministry instruction have been given to procure at the market rates as the market rates were not comparison with valuation rates.	Should be complied with financial regulation
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3 Physical Performance

3.1 Project Administration

No	Audit Issue	Impact	Management Response	Auditor's Recommendations
(a)	Although Rs.48.25 million was estimated for these 705 procurement for the year under review, however Rs.10.76 million was utilized as at 31, December 2023 and it was recorded as 22.34 present	Provisions are remained	<p>The procurement of medical supplies is a complicated process and it would not solely depend on the procurement staff of the project and following were the main reasons for the low performance.</p> <ul style="list-style-type: none"> • Frequent changes of the medical supply requirements by Medical Supplies Division as the items are received from number of supply sources. • Bidders' shortcomings in the bidding documents resulting cancellation of procurement packages. 	Arrangements should be made for the utilization of the annual provision

- Delay in approvals from the Technical Evaluation Committees.
- Resignation of Technical Evaluation Committee members.
- Delay in the approval from the Asia Infrastructure Investment Bank.
- Resignation of project staff

These are not within the control of the project.

(b) Although the required area was identified as square feet 2500 square feet for project office in the bid documents, however a premises with 5000 square feet was selected from the second bidder at a higher amount. During the physical inspection it was observed that the ground floor was completely underutilized and the upper floor was adequate for the project staff. A room of about 302 square feet on the above floor was closed without use.	Violation of bidding condition	The premises was selected considering the following <ul style="list-style-type: none"> • To use the premises for progress review meetings, PIU meetings with provincial staff, meetings with other stake holders & meetings with lending agencies of both HSEP & HSRP projects. • Shifting of Colombo office of the supervision consultancy firm for the civil works of HSEP and thereby reduce the cost for the payment of rent for the firms Colombo office premises. 	Should be complied with bidding condition
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