

The audit of financial statements of the Health System Enhancement Project – Additional Financing for the year ended 31 December 2024 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 2024, 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 Physical Performance

2.1 System and Controls

Audit Issue	Management Response	Auditor's Recommendations
Although medical equipment worth 2,523.3 million rupees had been obtained using the project financial provisions under the retroactive financing facility, the information related to the institutions that issued this medical equipment and the evidence regarding the accounting of these assets as non-financial assets of the ministry or related institutions were not submitted to the audit.	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. We have taken these values to our Project Financial Statements and in the Asset Register.	Medical equipment issuing orders should be submitted to the audit to verify the accuracy.