

Health Systems Response – AIIB Project - from 18 July to 31 December 2022

The audit of the financial statements of the Health System Response Project –AIIB for the First Accounting period from 18 July to 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 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 2022, the statement of expenditure and its cash flows for the period 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 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 Accounting Deficiencies

No	Accounting Deficiency	Amount Rs Million	Management Response	Auditor's Recommendation
(a)	A difference was observed between the balance of the Pharmaceutical and Surgical Consumable accounts in the ledger and the financial statements.	105	The Expenditure shown under medical supplies - Pharmaceuticals and Medical supplies- Surgical consumables in the Financial Statement are correct amounts. The corrected ledger page is attached herewith	Difference should be identified and adjusted accordingly.
(b)	A difference was observed between the balance of the Exchange Gain account in the ledger account and the financial statements.	0.4	value of the exchange gain shown in the financial statements was correct, and the corrected ledger submit herewith.	-Do-

3.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Audit Issue	Management Response	Auditor's Recommendation
(a)	The Cabinet decision dated 13 September 2022,	The aim of the project is controlling the facilities needed to quickly implement this emergency financing so that the government has to bear the minimum cost. It was decided to carry out the work of the project by utilizing the resources already available in the project management unit. But contrary to that, two officers were recruited in August and three more officers in September and Rs.1,898,988.94 had been paid to them as salaries and allowances in the year under review	The Project Management Unit of the Health System Enhancement Project already managed two loans and two grants from the Asian Development Bank and considering the volume of Procurement activities related work and the urgency of medical supplies under the new project, approval has been obtained from the Management Services Department for additional two Senior Procurement officers, one Senior Finance officer one Monitoring and Evaluation officer and one Project Officer in addition to the already approved cadre of the Project Management Unit for the smooth implementation of the project.	Should be complied with cabinet decision.

(b)	Finance Regulation No: 272(3) and No: 272(4)	The original of all payment vouchers should be sent to the Auditor General every month before the expiry of a period not exceeding 06 weeks from the end of the month. However the photo copies of the payment vouchers amounting to Rs. 5,214 million of payment vouchers related to purchase of drugs & medical equipment had been submitted.	Action will be taken to submit the vouchers to the Auditor General as per Finance Regulation 272(3).	Should be complied with the Financial Regulation.
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