

Report of the Auditor General on Head 111 – Ministry of Health – Year 2014

Paragraph 1 and 2 of this report contain the general information on the Accounts of the Ministry and the Audit Observations on the Head appear in paragraph 3.

1. Scope of Audit

The Audit of the Appropriation Account, Revenue Account, Winding up Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Head 111 Ministry of Health for the year ended 31 December 2014 was carried out in pursuance of provisions in Articles 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 29 September 2015. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Winding up Account, Revenue Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.117,162 million and out of that, Rs.112,122 million had been utilized by the end of the year under review.

According to the savings out of the net provision of the Ministry amounted to Rs.5,040 million and that represented 4.3 per cent of the net provision. Details appear below.

Expenditure	As at 31 December 2014			Savings as a Percentage of the Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	91,000	90,494	506	0.56
Capital	26,162	21,628	4,534	17.33
Total	117,162	112,122	5,040	4.30

2.2 Revenue Account

The Ministry had prepared a Revenue Estimate of the Rs.170 million for the Revenue Code 10.03.07.01 in respect of the year 2014 and revenue totalling Rs.168.72 million had been collected during the year under review. Accordingly, 99.25 per cent of the estimated revenue had been collected. Details appear below.

Revenue Code	As at 31 December 2014			Shortfall as a Percentage of the Estimate
	Estimated Revenue	Actual Revenue	Shortfall	
	Rs. Millions	Rs. Millions	Rs. Millions	
10.03.07.01	170.00	168.72	1.28	0.75

2.3 Advance Accounts

Advances to Public Officers Account

Limits authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No.11101 of the Ministry and the actual amounts and given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
920.00	757.15	653.00	653.35	1,919.00	1,398.47

2.4 Imprest Accounts

The balances of the Imprest Accounts of the Ministry as at 31 December 2014 totalled Rs.294.14 million. Details appear below.

Imprest Account Number	Balance as at 31 December 2014
	Rs. Millions
7002/000/00/0100/0014/000	211.77
7003/000/00/0014/0014/000	82.37
Total	294.14

2.5 General Deposit Accounts

The balances of 3 Deposit Accounts of the Ministry as at 31 December 2014 totalled Rs.519.64 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2014
-----	-----
	Rs. Millions
6000/0000/00/0015/0024/000	473.68
6000/0000/00/0002/0027/000	34.48
6000/0000/00/0001/0026/000	11.48

Total	519.64
	=====

2.6 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statement of the Ministry of Health had been satisfactorily prepared subject to the Audit Observations included in the Management Audit Report referred to the paragraph 1.1 above. The material and important Audit Observations out of the observations included in the Management Audit Report appear in paragraph 3.

3. Head 111- Ministry of Health

3.1 Presentation of Accounts

Even though the Ministry should have presented the following reports to Audit by 31 March 2015, the Revenue Account of the Revenue Code 10.03.07.01 had been presented to Audit after a day exceeding 3 ½ months. The following accounts had not been presented to Audit even by 30 November 2015.

Item Number -----	Name of Account -----	Delay ----- Years
34003	Winding up Advance Account of the Angoda Mental Hospital Occupational Therapy Advance Activity.	08
34004	Winding up Advance Account of the Bakery Advance Account Activity for the use of In-house Patients of the Angoda and Mulleriyawa Mental Hospitals.	08

3.2 Non- maintenance of Registers and Books

It was observed during the course of audit test checks that the Ministry had not maintained following registers.

Type of Register -----	Relevant Registers -----
(a) Register of Losses	Financial Regulation 110
(b) Register of Electrical Equipment	Financial Regulation 454(2)
(c) Register of Fixed Assets	Treasury Circular No 842 of 19 December 1978
(d) Register of Security	Financial Regulation 891(1)
(e) Register of Motor Vehicles	Financial Regulation 1647(e)
(f) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No.IAI/2002/02 of 28 November 2002
(g) Attendance Register of Procurement Committee and the Technical Evaluation Committee	Guideline 2.11.2 of the Government Procurement Guidelines.

3.3 Lack of Evidence for Audit

Three contract transactions totalling Rs.6,673,828,085 due to the unavailability of evidence such as the payment vouchers, work done bills, invoices, Goods Received Notes, Certificates for takeover of goods and 07 transactions totalling Rs.2,479,727 of the Teaching Hospital, Jaffna due to the unavailability of documents such as the list of participants of the Procurement Committees, Letters of calling bids, Procurement Committee reports, bills and certificates for payments, could not be satisfactorily vouched in Audit.

3.4 Replies to Audit Queries

Replies to 37 Audit Queries issued to the Ministry during the year under review and 05 Audit Queries issued in the preceding years had not been furnished even by 31 March 2015. The value of quantifiable transactions related to those Audit Queries amounted to Rs.13,121,687,195.

3.5 Appropriation Account

Budgetary Variance

The following observations are made.

- (a) The total net provisions amounting to Rs.1,584,363,074 made under 37 Objects had been saved.
- (b) The savings after the utilization of provisions out of the net provision amounting to Rs.2,658,751,362 made for 65 Capital Objects, in the year under review ranged from 51 per cent to 99 per cent.

3.6 Imprest Accounts

Out of the balances of the Imprest Accounts as at 31 December 2014, the balances not settled to the Treasury by 30 April 2015 totalled Rs.82,009,477.

3.7 General Deposit Account

The following observations are made.

- (a) According to the Appropriation Account prepared for the year under review, the deposit balances related to contracts older than 02 years totalled Rs.118,581,099. Action on those balances in terms of the Financial Regulation 571 had not been taken even by 31 December 2014. The Deposit Registers had not been updated in a manner to separated identify the value of the deposits to be credited to the Public Revenue and those to be further retained in the General Deposit Account.
- (b) The lists to be prepared at the end of each half year in connection with the lapsed deposits in terms of the Financial Regulation 571(1) had not been prepared for the lapsed deposits of the Teaching Hospital, Jaffna as at 31 December 2014 amounting to Rs.7,784,357.
- (c) The registration for the Value Added Tax of the contractor who supplied raw food to the Teaching Hospital Kegalla in the years 2012 and 2013 had expired. In the circumstances, the Value Added Tax paid to the contractor during that period amounting to Rs. 1,016,888 had been fully recovered and retained in the General Deposit Account even by 13 January 2015 without taking action either to settle the tax or to credit the money to the Public Revenue.

3.8 Revenue Account

According to the Revenue Account of the Revenue Code 10.03.07.01- Pharmaceuticals, Equipment, Perfumes and Pharmacies Registration Fee furnished to Audit, the arrears of revenue as at 31 December 2014 amounted to Rs.4,318,000 and that represented a balance existing from the year 2011. The follow-up action on the collection of the arrears of revenues had been at a weak level.

3.9 Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement of the Advance to Public Officers Account Item No.11101 as at 31 December 2014, the balances that remained outstanding as at that date totalled Rs.182,058,407. Out of that, balances amounting to Rs.69,605,822 had been outstanding over periods exceeding 05 years. Adequate steps had not been taken for the recovery of the outstanding loan balances and the follow-up action on the recovery of loans as well had been at a weak level.

3.10 Winding up Advance Account Activities

According to the decision of the Cabinet of Ministers No.CM:04/1121/008/036 dated 22 September 2004, the winding up of the Advance Account Activities No.34003 and 34004 had been assigned to the Ministry. The winding up of those Advance Account Activities should have been finalized by 30 November 2006. Even though a period of 08 years had elapsed since that date up to 31 December 2014, the winding up had not been finalized.

3.11 Good Governance and Accountability

3.11.1 Annual Action Plan

Even though the Ministry should have prepared an Annual Action Plan for the year under review in term of the Public Finance Circular No.01/2014 of 17 February 2014, the Action Plan for the year under review had been prepared on 09 June 2014, that is after a delay of six months.

3.11.2 Annual Procurement Plan

The Annual Procurement Plan for the year 2014 of the Bio- Medical Engineering Division had not been prepared properly. The following observations are made in this connection.

- (a) Even though the purchase of 3,059 units of 71 categories of equipment of estimated cost amounting to Rs.2,681,280,000 had been planned, none of those equipment had been purchased even up to September 2014.
- (b) Four hundred and thirty six units of 09 categories of equipment costing Rs.123,009,838, not included in the Procurement Plan had been purchased.
- (c) Plans had been made in the year under review for the purchase of equipment by utilizing the provision of Rs.655,478,906 made for the year under review without updating the Procurement Plan. Thirty six categories of equipment proposed for purchase in the years 2011, 2012 and 2013 had been purchased during the year under review by utilizing those provisions.

3.11.3 Audit and Management Committee

Even though the Ministry should hold meetings at least once per quarter in terms of the Management Audit Circular No.DMA/2009/01 of 09 June 2009, only 03 meetings had been held during the year under review.

3.12 Assets Management

The following deficiencies were observed during the course of audit test checks of the assets of the Ministry and the Institutions under the Ministry.

(a) Idle and Underutilized Assets

 The following observations are made.

- (i) It was observed during the course of audit test checks that certain assets described below had been either idle or underutilized.

Category of Assets	Ownership of Assets	Number of Assets	Idle or Underutilized Period
-----	-----	-----	-----
Buildings (Kitchen of the Kidney Unit, Maligawatta)	National Hospital	01	Over 01 year
Motor Vehicles	Ministry of Health	09	Over 09 year
Machinery	Teaching Hospital, Jaffna	01	Over 05 years
Machinery, Equipment and Furniture	Teaching Hospital, Jaffna	1,700	From 01 year to 07 years
Medical Equipment	Castle Street Hospital for Women	24	Over 01 year
Computer Software	Family Health Bureau, Kidney Unit and Hospitals at Nuwara Eliya, Kalutara, Jaffna, Kantale, AkkaraiPattu and Peradeniya.	08	01 year to 03 Years

- (ii). The building constructed for the Medical Store of the Teaching Hospital, Kurunagala had been used for other purposes. In view of this situation, 56,000 units of surgical consumables of 3 categories had been kept here and there without protection as the date of audit, 10 February 2015. Even though it was pointed out in the previous Audit Reports that the quality of the drugs should be maintained by storing there without in specified temperature ranges according to the specification of the drugs, it had not been heeded.

- (iii). The technical equipment and furniture purchased at a sum of Rs.307,000 out of the provisions of Rs.562,000 made by the Ministry during the year, for the Quality Management Unit of the General Hospital, Kegalle District had been left idling.
- (iv). Equipment valued at Rs.4,475,235 supplied by the Ministry in the first quarter of the under review for use by the Operating Theatres, 02 Oxygen Concentrators without accessories valued at Rs.390,000 supplied on 16 July 2014 without a request from the Hospital, and one GTC Machine valued at Rs.197,000 supplied on 21 May 2014 despite the availability of adequate GTC Machines in the wards had been kept in the Kuliypitiya Hospital for nearly one year without being utilized.

(b) Conduct of Annual Boards of Survey

The following observations are made.

- (i) Even though the Boards of Survey for the year 2014 should have been conducted and the reports thereon should have been furnished to the Auditor General before 17 March 2015 in terms of the Public Finance Circular No.02/2014 of 17 October 2014, action in terms of such instructions had not been taken and reports had not been furnished to Audit by 36 of the 65 Hospitals and Institutions of the Ministry. Three Institutions had not conducted the Boards of Survey for the years 2012 and 2013.
- (ii) The motor vehicles of the Hospitals and this Institutions under the line Ministry only had been surveyed in the physical survey of motor vehicles conducted in the year 2013 while a survey of the motor vehicles used by the Ministry or the motor vehicles released to outside Institutions had not been conducted.

(c) Assets given to Outside Parties

The Ministry had irregularly released certain assets to outside parties. Details appear below.

- (i). Eleven Motor Vehicles which had not been formally disposed of had been recorded in the registers as released to Institutions of Vocational Training as obsolete motor vehicles. The registration under the name of the Ministry had not been cancelled. Evidence in support of the receipt of the motor vehicles or taken over by the institutions concerned had not been furnished to Audit.
- (ii). Eight motor vehicles including 04 Ambulances had been given irregularly for use by 08 outside institutions. Nine other Ambulances had been released for use by 04 outside institutions without obtaining the formal approval to transfer user rights. But the evidence in support of the receipt of those 17 motor vehicles or taken over by the institutions concerned had not been furnished to Audit.

(d) Irregular use of Assets belonging to other Institutions

It was established that the Ministry is using 49 motor vehicles which did not belong to the Ministry or the registered ownership was not revealed.

(e) Non-disposal or Irregular Disposal of Assets

The following observations are made.

- (i) Action had not been taken for the formal disposal of 09 motor vehicles parked in different places outside Ministry premises without being used.
- (ii) It was revealed that the Ministry is the legal owner of 11 motor vehicles reported to in Police disappeared during the war in the North and East.

Action had not been taken either for holding inquiries in connection with those motor vehicles in terms of the Financial Regulations or for the cancellation of their registration to prevent them being used for committing officers or improper activities.

- (iii) Forty eight motor vehicles imported free of Customs Duty with a condition preventing sale or transfer had been sold by public auction. Action had had not been taken for the legal transfer of the ownership and for write off from books with formal approval. Even though it was revealed during the course of audit that the 48 motor vehicles had been sold, those had been reported to Audit as misplaced motor vehicles.

(e) Misplaced Assets

It was revealed that the fleet of 752 motor vehicles of the Ministry with the legal ownership of the Ministry are not physically available in the Fleet. The Ministry failed to furnish the information whether the motor vehicles were disposed of or the places where they are stationed or the parties using them.

3.13 Unsettled Liabilities

The accounts disclosed the existence of unsettled liabilities of the Ministry as at 31 December 2014 as Rs.6,789,967,480. Nevertheless, the unsettled liabilities to the State Pharmaceuticals Corporation of Sri Lanka and the Sri Lanka State Pharmaceuticals Manufacturing Corporation of Sri Lanka amounting to Rs.14,961,757,448 had not been disclosed in the accounts.

3.14 Non-Compliances

(a) Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-Compliance
-----	-----	-----
(i) Statutory Provisions	Rs.	

<ul style="list-style-type: none"> • Motor Traffic Act, No.14 of 1951 	-	The Ministry is running more than 15 motor vehicles not registered in the Department of Motor Traffic.
<ul style="list-style-type: none"> • Cosmetics, Devices and Drugs Act, No. 27 of 1980 	23,470,500	The drugs and medical equipment imported by the suppliers should be registered with the Cosmetics, Devices and Drugs Authority and a license should be obtained. Nevertheless, the Bio-Medical Engineering Services Division had purchased 15 Resuscitator Baby Equipment from a supplier who had not obtained an import license. In addition the Lady Ridgeway Children's Hospital had purchased C-Arm-X-Ray Machine and

- two Pediatric Fibre Optic Nasolaryngoscope from Suppliers who had not obtained the Registration of Medical Equipment Certificate and the Import License.
- Public Contract Agreement Act, No.3 of 1987 Sub-section 2(1) 69,114,993

Even though a Certificate of Registration of the Contract Agreement in the Office of the Registrar General of Companies should be obtained from the Contractor, the Registration Certificates related to 05 contracts awarded by the Bio-Medical Engineering Services Division and one Contract awarded by the Lady Ridgeway Children's Hospital had not been obtained.

(ii) Establishments Code of the Democratic Socialist Republic of Sri Lanka

 Section 23 of Chapter XII and Section 1,4 of Chapter XLVII of Part II and Appendix I.

96,244 Three Doctors serving in the Colombo Port Health Office who had proceeded abroad without approval had maintained wrongful diaries in support that they were serving in the country and obtained salaries for 63 days in 09 such instances of staying abroad.

**(iii) Financial Regulations of
the Democratic Socialist
Republic of Sri Lanka**

- Financial Regulation 106(3) 3,285,475 Even though orders had been obtained for the write off the unrecoverable losses and damage, action had not been taken to obtain provision from the Treasury and write off those losses.
- Financial Regulation 109 206,932,423 Action had not been taken either for the recovery or for the write off of the losses and damage disclosed in the Appropriation Account for the year under review as the losses that should have been recovered or written off during the years 2002 to the year 2014
- Financial Regulation 156(1) 824,450 Instead of recovery of the value of the Microscope of the Teaching Hospital, Peradeniya lost due to the carelessness of the officers and the drugs counting machine of the District Hospital, Kandana given for repairs and not collected, from the salaries of the offices, it had been recommended for write off from books.

**(iv) Treasury Circular No.33 of
5 April 2007**

- Pararaph 2.1.2 - Three hundred and forty nine officers had been recruited to the Global Fund Project for the Eradication of Aids, Tuberculosis and Malaria without the approval of the Department of Management Services.
- Paragraph 4.3.2 967,797 Global Fund Project for the Eradication of Aids, Tuberculosis and Malaria had paid the contribution to the Employees Provident Fund and the Employees Trust Fund for 16 Public Officers contributing to the Widows' and Orphans' Pension Fund recruited on the secondment basis to the staff of this project.

**(v) Circulars of the Ministry of
Health**

- Paragraph 23 of the Circular No.SA/01/2012 of 12 February 2014. 932,217 Two contracts for carrying one repairs to Ward No.01 and the Nurses' Quarters of the Lady Ridgeway Children's Hospital had been split into 09 parts to be within the limit of Rs.200,000 and awarded to three contractors.

(b) Non-compliance with the Procurement Guidelines

The following observations are made.

- (i) Shopping procedure had been followed for the purchase of 150 mattresses for the General Hospital, Badulla and 200 mattresses had been purchased on 29 January 2014 for Rs.500,000 at the rate of Rs.2,500 per mattress and another 100 mattress had been purchased from the same suppliers on 30 April 2014 for Rs.250,000. As the Shopping procedure had been followed only for 150 mattresses, a further order for 50 per cent of that or 75 mattresses only can be made in terms of the Guideline 3.6 of the Government Procurement. Guidelines, Contrary to that, extra 75 mattresses had been ordered again and purchased for Rs.187,500.
- (ii) Instead of inviting quotations from the suppliers for minor contracts of the General Hospital, Badulla, a repair works contract costing Rs.1,627,558 had been awarded to a supplier selected without inviting quotations.
- (iii) The Medical Suppliers Division had purchased 33,410 units of Bupivacaine Hydrochloride injection 0.5 per cent which did not conform to the required specifications in January 2014 for Rs.23,848,058 at Rs.713.80 per unit from a supplier who had not registered the drug with the Cosmetics, Devices and Drugs Authority. Even though action had been taken to purchase locally as an urgent requirement and introducing a condition that the supply should be made within 48 hours from the time of issue of the order, the supply had been taken over in 4 instances after delays ranging from 14 to 43 days. However, the same drug which

conformed to the required specifications had been supplied in February 2014 by the State Pharmaceuticals Corporation of Sri Lanka at Rs.402.91 per unit. As such, the loss caused to the Government due to purchases made from a local supplier amounted to Rs.10,386,835.

- (iv) The Lady Ridgeway Children's Hospital had purchased a C-Arm X-ray machine for Rs.8,865,000. According to the bid documents, the quotations should have been evaluated by adding the cost of the machine and the net current value of the maintenance costs of 10 years. Nevertheless, the cost of the machine only had been evaluated for the selection of the supplier. The machine had been purchased from the highest bidder as the quotation had not been properly evaluated and the loss caused to the Government amounted to Rs.2,216,290. An agreement had also not been signed with the supplier.
- (v) Even though the contract for the supply of raw food to the General Hospital, Matara for one year from May 2014 to April 2015 had been awarded for a sum of Rs.31,893,600, an agreement had not been entered into with the supplier. Even though a new supplier should have been selected from May 2015 by following the Procurement Procedure, contrary to that, the supply of raw food for the General Hospital, Matara had been done by the same supplier even from May 2015.

3.15 Foreign Loan and Foreign Aid Projects

Provisions amounting to Rs.20,953.14 million had been made in the Annual Budget Estimates for 63 Projects proposed for implementation under foreign financing during the year under review. Out of that, a sum of Rs.9,813.67 million had been utilized during the under review. The following deficiencies were observed during the course of audit test checks of those projects.

(a) Foreign Loan Projects not Subjected to Audit

Three projects comprising the Development of Hambantota and Nuwara Eliya District Hospitals, the improvement of Blood Transfusion Service of Sri Lanka with special attention to the Northern and Eastern Regions and the Construction and Improvement of the Terminal Blood Banks under the National Blood Transfusion Service had been provided with Foreign loan by the Government of the Netherlands, Out of the Foreign Loan supplied in the years 2013 and 2014, a sum of Rs.6,349.44 million had been spent. The transactions related to those 3 projects could not be satisfactorily vouched as the payment vouchers and the supporting documents in the support of the payments had not been furnished to Audit.

(b) Non- utilization of Funds for Construction Projects by the Ministry

The following observations are made.

- (i). The provision of Rs.85.00 million made for 3 Foreign Aid Projects had been saved due to the failure to commence the work during the year under review and the total provisions of Rs.23.00 million in Foreign Aid made for 02 Construction projects of which the work had been completed by the time provision was made, had been saved.
- (ii). Out of the provision of Rs.372.20 million made for 10 Foreign Aid Construction Projects a sum of Rs.55.72 million only had been utilized due to reason such as the non-identification of requirements, non-completion of Procurement work, stoppage of work halfway, legal action taken against the contractor and the non-receipt of adequate imprests. Accordingly the financial progress thereof amounted only to 15 per cent.
- (iii). Out of the provision of Rs.460.00 million made for 05 projects on which expenditure of Rs.1.41 million had been incurred in the years 2012 and 2013, no utilization whatsoever had been made.

(iv). **Abandonment of certain works included in Foreign Aid Projects**

The construction of Maternity Hospital at Galle Mahamodara commenced in the year 2005 had been ceased halfway after the construction of the foundation. Nevertheless, the information on the manner of receiving provision, amount of provision received, the total cost estimate, the engineering estimate, the procurement process followed for the selection of contractor, the value of contract, agreement, design and drawings, payments made to the contractor, etc. had not been furnished to Audit.

According to the Cabinet decision No.11/0512/504/073 dated 5 April 2011, that is six years subsequent to ceasing the work, EURO 28 million or Rs.4,300 million approximately had been obtained from the KFW Bank of the Federal Republic of Germany. Accordingly the loan agreement was signed on 16 August 2012 for the construction of the Hospital with 600 beds, an Outdoor Patients Department with facilitates for 800 outdoor patients on the existing foundation. Even though the work should have been completed in the year 2014 according to the decision of the Cabinet of Ministers, the agreement with the contractor had been signed only on 30 July 2015.

3.16 Locally Funded Projects

The following deficiencies were observed during the course of the audit test checks of locally funded projects.

(a) Projects Abandoned without Completing

The following projects had been abandoned without being completed.

- (i) The provision of Rs.15 million made for a locally funded Project had been saved due to the failure to commence the work during the year under review.
- (ii) The approved total cost estimate for the construction of Wards Complex of 7 floors in the premises of the Colombo South Teaching Hospital had not been furnished to Audit. The total provision made out of the local funds from the year 2006 to the year under review amounted to Rs.1,065.03 million. The Contract valued at Rs.398.14 million had been awarded to a contractor selected by the Ministry Procurement Committee. According to the agreement, the work should have been commenced on 15 September 2006 and completed by 09 March 2008. A Memorandum of Understanding had been entered into on 09 October 2008 with a donor who had volunteered to increase the 7 floor building to 8 floors. The following observations are made in this connection.
- As the value of the contract exceeded Rs.100 million, in terms of provisions in Guideline 2.14.1 of the Government Procurement Guidelines, the contractor should have been selected by the Cabinet Appointed Procurement Committee. Contrary to that the Ministry Procurement Committee had selected the contractor.
 - The additional money required for the increase of the 7 floors approved for the building to 8 floors amounting to U.S \$700,000 had been volunteered by a donor and a Memorandum of Understanding had been entered into with him on 09 October 2008. Nevertheless, by that time the foundation for 7 floors building had been constructed. But a certificate from a Consulting Firm or a qualified Engineer had

not been obtained as to whether it as possible to increase it to 8 floors. Even though the composition of the building up to in additional floor had been changed and construction work had been commenced, action had not been taken for the preparation of an engineering estimate or obtaining the approval of the relevant Procurement Committee or for entering into a revised agreement with the contractor.

- Contractor's work had been stopped on 21 February 2014 due to abandoning work and breach of the agreement. Advances amounting to Rs.122.59 million including an advance of Rs.42.97 million paid for the purchase of equipment contrary to the provisions in the Government Procurement Guidelines. Out of those advance a sum of Rs.50.93 million remained recoverable as at the end of the year under review. But the Ministry had not taken action to recover the advances from the Advance Guarantee.
- The equipment costing Rs.42.97 million purchased by the contractor utilizing the advances paid for the purchase of equipment had been lying idle at the work site for more than two years. Any information on the Guarantee period of those had not been furnished to Audit.
- The Minutes made in the file and the information received confirmed that the contractor had completely ceased the works for more than 2 years from 16 March 2010 to 31 December 2012. Nevertheless, Consultancy fee of Rs.14.16 million related to that period had been paid to the Central Engineering and Consultancy Bureau.

- The work had not been completed even by 31 December 2015 and the financial and physical performance as at that date amounted to Rs.241.35 million and 65 per cent.
- The Performance Guarantee of Rs.19,906,972 had expired by 31 December 2015. As action had not been taken for extending its period, it had not been possible to encash the Performance Guarantee.

3.17 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

According to an analysis of the adjustment shown in the Bank Reconciliation Statements prepared by the Ministry for December 2014. The following information was revealed.

Serial Number	Particular of Adjustments	Age Analysis		Total
		Over 06 months less than 01 year	Over 01 year less than 03 years	
		Rs.	Rs.	Rs.
(i)	Cheques issued but not presented for payments	6,610,129	260,527	6,870,656
(ii)	Unidentified Credits	218,435	-	218,435

3.18 Transactions of Contentious Nature

Certain transactions entered into by the Ministry had been of contentious nature. Several such instances revealed at test checks are given below.

- (a) Out of 13 categories equipment costing Rs.15.94 million purchased by the General Hospital, Matara in the year under review, 06 categories of equipment costing Rs.8.86 million had not been received by the Hospital even by 31 December 2014. Six cheques drawn for making payment to the supplier without examining whether the equipment conformed to the specifications had been retained with the subject clerk.
- (b) In the purchase of 395 liters of Deltacide insecticide of invoice value of Rs.3.35 million, the invoice value had been split into two invoices amounting to Rs. 2.98 million and Rs.0.36 million to bring to limit of the 3.00 million authorized for the Regional Procurement Committee of the Bio- Medical Engineering Division and payment had been made by two cheques.
- (c) A Mitsubishi Double Cab motor vehicle, the value of which had not been revealed had been sold to an officer for a low value of Rs.290,000 by producing erroneous information that it was not sold at the auction, though it had not been offered at an auction.
- (d) A Mitsubishi Jeep which had not been valued and not sold at an auction had been sold to an officer for a low value of Rs.395,000 without obtaining a formal recommendation for disposal and the value of which not been properly assessed.

3.19 Irregular Transactions

Certain transactions entered into by this Ministry had been devoid of regularity. Several such instances observed are given below.

- (a) The Cosmetics, Devices and Drugs Authority had issued 1,121 letters of "No Objection for import" for the clearance of drugs not registered with the Authority imported by private institutions without obtaining Import Licenses. The drugs registration fee revenue related to those 1,121 instances had been deprived to the Government.

- (b) Despite the elapse of the contract period and the performance guarantee of the contract for the supply of raw food for the Kegalla Teaching Hospital, the raw food requirements for two month from 01 march 2014 to 30 April 2017 valued at Rs.2,246,714 had been purchased from the same contractors.

3.20 Accounts Receivable and Payable

The payables to the State Pharmaceuticals Corporation of Sri Lanka and the State Pharmaceuticals Manufacturing Corporation of Sri Lanka for the drugs and surgical materials purchased by the Medical Suppliers as 31 December 2014 had been disclosed as Rs.14,961.76 million in the accounts. The two Corporations had confirmed that amount as Rs.3,110.99 million. Action had not been taken to identify the reasons for the difference of the 11,850.77 million through preparation of reconciliation statements.

3.21 Transactions without Authority

Contracts for running 11 canteens in the premises of the National Hospital had been awarded to 11 suppliers selected by the Welfare Societies and Canteen Committees. contrary to the provision in the Governmental Procurement Guidelines.

3.22 Losses and Damage

The observations on the losses and damage revealed at audit test checks are given below.

- (a) The revenue lost by the Government from 159 shops selected out of the shops selling drugs and devices without obtaining the licenses for the year 2014 issued by the Cosmetics, Devices and Drugs Authority or without the renewal of the licenses already obtained amounted to Rs.1,943,500. Even though the Food and Drugs Inspectors should inspect such shops and take necessary action for collecting the revenue, the number of inspections carried out in the year 2014 had been less than the inspections carried out in the year 2013.

- (b) The drugs and surgical materials purchased by the Medical Supplies Division from the foreign suppliers through the State Pharmaceuticals Corporation of Sri Lanka are referred for quality testing only after the issue of those to the Hospitals and due to the irregular method followed quality reports are received after the issue of drugs to the patients. According to the quality reports drugs and surgical materials valued at Rs.218.62 million had failed the quality tests. Even though the Medical Supplies Division had issued 45 circulars ordering the withdrawal of drugs, a larger quantity of those drugs and surgical materials had been issued to the patients by the time the circulars were received at the Hospitals.
- (c) The surcharge payable as at 31 December 2014 on account of the contributions payable to the Employees Provident Fund and the Employees Trust Fund in respect of the employees of the project related to the Eradication of Aides, Tuberculosis and Malaria amounted to Rs.3.54 million.
- (d) Action according to an appropriately prepared procurement plan had not been taken for the purchase of drugs, surgical materials and laboratory equipment for the Government Hospitals at the minimum prices through domestic and foreign competitive suppliers. As such purchases had to be made from time to time over a long period from the local suppliers. The additional cost incurred on such local purchases of drugs, surgical materials and the laboratory equipment made by the Medical Supplies Division during the years 2007 to 2014 amounted to Rs.4,089.92 million.

3.23 Uneconomic Transactions

The particulars of transactions entered into devoid of economy revealed at the audit test checks are given below.

- (a) The canteen together with the land and the Sanniwedana Piyasa of the Kurunegala Hospital had been given out on rent to a registered Co-operation Society outside the Procurement Process at an assessed sum of Rs.190,000 per year at the 15,900 per month. The Co-operative Society had rented out those

assets to another party for Rs.6,276,000 per year at Rs.523,000 per month. As such the annual loss of revenue to the Hospital amounted to Rs.6,085,200.

- (b) An excess expenditure of Rs.5,600,052 had been incurred by the General Hospital, Badulla for 15 items in the purchase of raw food due to the failure to examine the prices comparatively and action taken with due regard to economy.
- (c) According to the agreement entered into with the supplies of cleaning services of the General Hospital, Badulla, employees are entitled to overtime only after performing duties for 12 hours per day. Nevertheless 147 employees who had not fulfilled the agreed daily period had been overpaid Rs.8,747 per day. As such the Hospital had incurred an uneconomic expenditure of Rs.3,192,757 per year.

3.24 Unresolved Audit Paragraphs

Reference to the paragraph included in the Report of the Auditor General on the Ministry, in respect of which the Ministry had not made rectifications.

Reference to the Report of the Auditor General		Subject under Reference
Year	Paragraph Number	
2007	6.6 (a) XIII	Recovery of the shortage amounting to Rs.10,499,595 resulting from the transport of drugs from the suppliers.

3.25 Management Weaknesses

The following weaknesses were observed during the course of audit test checks.

- (a) According to the Appropriation Account presented for the year 2014, the utilization of foreign grants for capital expenditure had been 35 per cent and the utilization foreign loans ranged from 91 per cent to 97 per cent. Accordingly the utilization of foreign grants, as compared with the utilization of foreign loans, had been at a weak level.

- (b) The results of the open competitive examinations held on 05 May 2013 and 21 July 2013 by the Ministry for the recruitment of Telephone Operators and Attendants (Male/ Female) at a cost of Rs.1,792,488 which included the conduct of examinations, evaluation of answer scripts and other expenses of conducting examinations had been cancelled due to weak management.
- (c) Seventy eight Doctors who had proceeded abroad for study and employment purposes had not reported for duty on the specified dates. Action had not been taken in accordance with the agreements for the recovery of a sum of Rs.37,330,660 recoverable from 49 of those Doctors. Further, salaries amounting to Rs.1,099,583 had been paid to two Doctors who had proceeded abroad on no pay leave.
- (d) Very heavy expenditure had been incurred annually on Specialist Medical Training and the expenditure so incurred in the years 2013 and 2014 alone amounted to Rs.4,587,102,523. Nevertheless, a trend of not returning to the Island by certain Doctors after completing the specialist Medical Training was observed. Fifty six Doctors who had undergone Specialized Medical Training had not returning to the Island by the end of the year under review.
- (e) The additional accessory of Dialyzer required for the Kidney Unit of the National Hospital, had not been supplied and that accessory had been purchase from private funds of patents In 104 instances in November 2014 alone. As the chemical Renal in Solution had not been supplied the process of re-using that had been suspended temporarily.
- (f) According information obtained from 06 Hospital selected on sample basis, action had not been taken for the recovery of rent amounting to Rs.17,111,999 and the charges for water and electricity amounting to Rs.508,186 recoverable from the canteens maintained in 03 Hospitals. Even though the contract periods of 02 canteens of the General Hospital, Badulla had expired, thereafter the same contractor had been allowed to run the canteen over a period exceeding 2 years

since the expiry of the agreement, without entering into a new agreement and without recovering the rent.

- (g) The Bio-Medical Engineering Division had taken action in the year 2013 for the purchase of an Orthopedic OT Table at a cost of Rs.12,402,493 including the Value Added Tax. Nine very important technical specifications had been evaluated and the bid of the seventh bidder who had satisfied all specifications amounted to Rs.10,660,714. Nevertheless, the reconciliation of the Technical Evaluation Committee and the approval of the Procurement Committee had been given for purchase from the highest bidder who had not satisfied one specification and quoted the highest price of Rs.11,073,655. As such an excess payment of Rs.412,941 had been made. Nevertheless the most important technical specification not fulfilled by the selected bidder and the lowest bidder had been the same. As such it was observed that there was the possibility of the purchase of the equipment from the lowest bidder who quoted Rs.1,960,000.
- (h) Even though the Appointing Authority for the posts approved for the Ministry in the Secretary to the Ministry, the Director General of Health had taken action Ultra Vires the authority devolved in him and had appointed an officer who was holding the post of Health Driver Overseer as at 06 August 2008 to out of the post of Transport Foreman with effect from 01 June 2009 without calling for applications and holding an interview. That officer had been confirmed in the post of Foreman with effect from 08 February 2010. Even though the approved Cadre of the Ministry included only one post of Transport Officer, and that post is held by a permanent officer, the Director General of Health Services had appointed that officer to act on the post of Transport Officer with effect from 22 September 2011 erroneously reporting the existence of two posts of Transport Officer.
- (i) Salary amounting to Rs.91,057 had been paid for 37 days of in the year under review to a Doctor no- pay leave obtained of the Children's Hospital, Colombo. The on call allowance of Rs.100,000 had also been paid to him for the full period

of stay abroad as if he had held in service at the Children's Hospital Colombo. The same Doctor had proceeded abroad in the year 2015 without obtaining the formal approval for no pay leave and he had been paid a sum of Rs.76,710 as salary for the period of stay abroad.

- (j) The letter issued by the Public Services Commission to a Doctor for his dismissal from service after being found guilty after holding a formal disciplinary inquiry had not been handed over to him. He had been deployed in service for 8 months since the due date of his dismissal from services, that is, 07 January 2013 and had been paid salaries and allowances amounting to Rs.813,436 for that period.

3.2.6 Human Resources Management

Approved Cadre and Actual Cadre

Particulars of the position of the Cadre as at 31 December 2014 had been as follow.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	13,972	12,202	1,770	-
(ii) Tertiary Level	31,023	25,504	5,519	-
(iii) Secondary Level	5,101	3,765	1,336	-
(iv) Primary Level	28,758	22,463	6,295	-
(v) Others (Casual/ Temporary/ Contract basis)	-	741	-	741
Total	78,854	64,675	14,920	741

The following observations are made.

- (i). The Ministry had not taken action to fill 14,920 vacancies as at 31 December 2014 and for obtaining the formal approval for the excess of 741 employees.

- (ii). Vacancies in 14 posts existed over periods ranging from 01 year to 09 years in the Ministry, 02 Institutions and the Global Fund Project for the Eradication of Aids, Tuberculosis and Malaria selected as a sample. Officers had been appointed to act and for covering up duties without taking action to fill the vacancies.
- (iii). Contrary to paragraph 06 of the General Circular No.2-125/2014 of 04 September 2014 of the Ministry of Health without the approval of the Public Service Commission and the Secretary to the Ministry, the Chief Nursing Officer in Special Grade of the National Hospital, who retired on 01 October 2014 had been deployed in that post even by 25 February 2015, thus causing an injustice to the qualified Nursing Officers in the Special Grade.
- (iv). The number of Scans done from the Magnetic Resonance Imaging Scanner had been limited due to the vacancies in the posts of Anesthetists at the Children's Hospital and the optimum service from the machine could not be achieved. Similarly there are 12 Units which require service of Radiographers. Even though the minimum requirement of 38 Radiographers had been identified, the service of 14 Radiographers had been received. There were 303 patients expecting MRI Scans in the Waiting List from 12 June 2015 to 18 December 2015 due to the dearth of Anesthetist Doctors and Radiographers.