Report of the Auditor General on Head 111 – Ministry of Health, Nutrition & Indigenous Medicine - Year 2016

The audit of the Appropriation Account, and the Reconciliation Statements including the financial records, books, registers and other records of the Head 111 – Ministry of Health, Nutrition & Indigenous Medicine for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 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 05 January 2018. 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 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 of the net provision made for the Ministry amounted to Rs. 177,059.20 million and out of that, a sum of Rs. 134,779.74 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provisions of the Ministry amounted to Rs. 42,279.46 million or 23.88 per cent. Particulars are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	137,067.50	111,752.06	25,315.44	18.47
Capital	39,991.70	23,027.68	16,964.02	42.42
Total	177,059.20	134,779.74	42,279.46	23.88

2.2 **Advances to Public Officers Account**

Limits Authorized by Parliament

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The limits authorized by Parliament for the Advances to Public Officers Account Item No. 11101 of the Ministry, and the actual amounts are 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
1,574.00	1,242.20	1,065.00	1,042.14	2,500.00	1,784.80

2.3 **Imprest Account**

The balances of 02 imprest accounts maintained by the Ministry totaled Rs. 225.55 million as at 31 December 2016. Particulars are given below.

Imprest Account No.	**Balance as at 31 December 2016**
	Rs. Millions
7002/0000/00/0100/0016/000	212.86
7003/0000/00/0014/0016/000	12.69
Total	225.55

2.4 **General Deposit Account**

The balances of 07 deposit accounts maintained by the Ministry totaled Rs. 851.90 million as at 31 December 2016. Particulars are given below.

Deposit Account No.	**Balance as at 31 December 2016**
	Rs. Millions
6000/0000/00/0001/0111/000	15.85
6000/0000/00/0002/0155/000	38.44
6000/0000/00/0013/0108/000	154.71
6000/0000/00/0016/0099/000	625.30
6000/0000/00/0017/0027/000	0.01
6000/0000/00/0018/0102/000	12.74
6000/0000/00/0019/0024/000	4.85
Total	851.90

2.5 Audit Observation

The Appropriation Account, and the Reconciliation Statements of the Ministry of Health, Nutrition & Indigenous Medicine for the year ended 31 December 2016 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations, out of the Audit Observations included in the Management Audit Report, appear in Paragraph 3.

3. Material and Significant Audit Observations

3.1 Non-maintenance of Registers and Books

It was observed in audit test checks that some of the following registers had not been maintained whilst certain registers had not been maintained properly and in an up-to-date manner by the Ministry.

	Type of Register	Relevant Regulation	Observation
(i)	Register of Fixed Assets on computer accessories and software.	Treasury Circular, No. I/A/I/02/2002, dated 28 November 2002.	Not maintained.
(ii)	Register of Liabilities.	Financial Regulation 214.	Not maintained.
(iii)	Register of Electrical Fittings.	Financial Regulation 454(2).	Not maintained.
(iv)	Register of Fixed Assets.	Treasury Circular, No. 842, dated 19 December 1978.	Not maintained in an up-to-date manner.
(v)	Register of Losses.	Financial Regulation 110.	Not maintained in an up-to-date manner.

3.2 Replies to the Audit Queries

Twenty two audit queries sent to the Ministry in the year under review, and 18 audit queries issued in the preceding years, had not been replied even up to 01 December 2017. The value of the computable transactions relating to those queries, amounted to Rs. 27,955 million.

3.3 Failure in Adherence to the Limits

The Parliament had approved the minimum limit of receipt amounting to Rs. 1,065.00 million in respect of Advances to Public Officers Account bearing Item No. 11101. After adjustments being made by the end of the year under review in terms of Financial Regulation 503 (1), the actual receipts affecting the limit, amounted to Rs. 1,042.14 million. Accordingly, the limit approved by Parliament had not been reached by a sum of Rs. 22.86 million.

3.4 Appropriation Account

3.4.1 Allocation of Nominal Provisions

Provision amounting to Rs. 17,878 million had been made for the year under review with respect to the Object "Capital carrying cost of Government land and building" under the Head of the Ministry, indicating 10 per cent of the total provision made for the Head. Although provision had been made under the Object in that manner, no utilization had been made therefrom, and hence, the provision had totally been saved. As such, it was observed that about 10 per cent of the provision made for the health sector in the annual budget estimate had been allocated nominally without expecting to utilize.

3.4.2 Failure to Utilize Capital Provision

The reasons such as, failure to prepare realistic annual plans properly and implement them under proper supervision, allocation of provision without a specific plan and accurately studying as to how the preliminary activities of the project would be executed, and non-adherence to a proper Procurement Plan, had given rise to the issues : Procurement activities taking durations as long as 2 years, recurrent changes in the project proposals, failure to monitor the progress of the projects and the plans thereof, failure to identify and rectify the problems, failure to always take action in an expedited manner, failure to provide the data and resources required for planning the projects properly on time, and failure to hand over the land proposed for constructions on time after being prepared. Owing to those various reasons, provision worth Rs. 5,648 million made for 24 capital Objects, had totally been saved. Similarly, capital provision totalling Rs. 22,766 million made for 126 Objects during the 5 preceding years, had also been saved entirely. Of the total savings amounting to Rs. 28,414 million, sums of Rs. 22,403 million, Rs. 2,264 million, Rs. 147 million, and Rs. 3,600 million had been allocated for constructions, purchasing instruments, vehicles, and other health promotion programmes respectively.

3.4.3 Utilization of Recurrent and Capital Provisions as Compared with the Preceding Year

As at 31 December 2016, the utilization of recurrent and capital provisions had only been 82 per cent and Rs 58 per cent respectively. As compared with the preceding year, the utilization of recurrent and capital provisions had decreased by 10 per cent and 18 per cent respectively.

3.4.4 Transfer of Provision Obtained through Supplementary Estimates to other Objects

Provision amounting to Rs. 500 million had been made through supplementary estimates for the construction of buildings at the teaching hospitals in Anuradhapura, Jaffna, and Kurunegala. About 8 per cent of the provision so obtained, had been utilized on the intended purpose, and it was observed that a part of the rest of the provision had been transferred to other Objects contrary to Financial Regulation 65(4) (XI).

3.4.5 Underutilization of Foreign Grants and the Reimbursed Foreign Loans

Of the net provision financed in the year under review through local funds, foreign loans, and local costs associated with foreign financial loans, the levels of utilization stood at 61 per cent, 56 per cent, and 41 per cent respectively in contrast with that of 85 per cent, 95 per cent, and 75 per cent respectively in the preceding year. Accordingly, the utilization of provision had decreased by 24 per cent, 39 per cent, and 34 per cent respectively as opposed to the preceding year. However, the utilization of reimbursed foreign loans had increased by 48 per cent in the year under review as compared with the preceding year. Irrespective of the increase in the utilization of foreign grants by 7 per cent as compared with the preceding year, that utilization represented 24 per cent of the net provision made.

3.5 Imprest Account

The following observations are made.

(a.) The total of the balances in 2 imprest accounts not settled by the Ministry as at 30 April 2017, amounted to Rs. 102.91 million. Balances totalling Rs. 362,702 therefrom had continued to exist since the year 1997.

(b.) In terms of Financial Regulation 371(5) as amended by Public Finance Circular, No. 03/2015, dated 14 July 2015, "ad hoc" Sub-Imprests obtained should be settled within 10 days after completion of the intended purposes. However, "ad hoc" Sub-Imprests totalling Rs. 24.36 million given in 608 instances had been settled after a delay of 01-13 months after completion of the intended purpose. Furthermore, "ad hoc" Sub-Imprests totalling Rs. 1.15 million had been issued in 38 instances though, those imprests had not been settled even after a lapse of 07-14 months as at 31 July 2017.

3.6 General Deposits Account

Action had not been taken in terms of Financial Regulation 571 on deposits totalling Rs. 193.73 million and continued to exist over a period of more than 2 years.

3.7 Reconciliation Statement on the Advances to Public Officers Account

The following deficiencies were observed in the audit test check conducted on the reconciliation statement of the Advances to Public Officers Account bearing Item No. 11101 as at 31 December 2016.

(a.) In terms of Section 1.6 of Chapter XXIV of the Establishments Code, the loan balances of an officer should be paid by the Department from which he is transferred, to the new Department. However, due to failure in doing so, the total of the loan balances to be settled to the Provincial Councils amounted to Rs. 53.88 million as at 31 December 2016.

(b.) Due to failure in following Sections 4.2, 4.4, 4.5, 4.6 and 4.8 of Chapter XXIV of the Establishments Code, loan balances totalling Rs. 34.44 million that remained outstanding for a period of more than one year with respect to officers who had been retired, deceased, interdicted, released to Corporations/Boards, or vacated the service as at 31 December 2016, could not be recovered even by the end of the year under review. Of the said balances, the loan balances that remained outstanding for a period of more than 5 years, totaled Rs. 19.64 million.

(c.) In terms of Section 11:7:1 of Chapter XXIV of the Establishments Code, the loan installment and the interest should be deducted from the salary of the officer thereby transferring to the relevant bank monthly. Nevertheless, loan installments and interest totalling Rs. 0.47 million pertaining to 63 officers attached to the Ministry had not been deducted from the salary in 202 instances in the year under review.

3.8 Accountability and Good Governance

3.8.1 Annual Action Plan

The Ministry had prepared the annual Action Plan after a delay of 10 months on 27 October 2016 in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014. As such, the objectives of preparing an Action Plan had not been achieved.

3.8.2 Annual Procurement Plan

The following observations are made.

(a.) The provision amounting to Rs. 39,991 million allocated to the Ministry through the annual budget for the year 2016, should have been utilized on works, goods, and services in accordance with Procurement Guidelines. As the Ministry had prepared the Procurement Plan after a lapse of 6 months from the commencement of the year on 22 June 2016 in accordance with the National Budget Circular, No. 128, dated 24 March 2006, the Ministry had failed to achieve the objectives expected from the Plan.

(b.) Of the provision made for the Ministry in respect of works, goods and services, sums of Rs. 1,842 million, Rs. 1,837 million, and Rs. 136 million had been granted to National Hospital of Sri Lanka, General Hospital of Kandy, and Teaching Hospital of Gampola respectively. The main Procurement Plan, annual Procurement Plan, and Procurement Timetable had not been prepared for the year under review relating to the said 3 hospitals in accordance with Guideline 4.2 of the Government Procurement Guidelines, and the National Budget Circular, No. 128, dated 24 March 2006. Instead, procurements had been made at the discretion of the hospital management without a plan and identifying the requirements properly.

3.8.3 Annual Performance Report

According to Public Finance Circular, No. 402, dated 12 September 2002, the Ministry should table the Performance Report in Parliament within a period of 150 days from the lapse of the financial year. However, that report had not been tabled in Parliament even up to 30 November 2017.

3.9 Assets Management

The following deficiencies were observed in the audit test check conducted on the assets of the Ministry.

(a.) Idle and Underutilized Assets
Three vehicles of the Ministry numbered, 41-1117, 68-1670, and WP LW 0434 that had met with accidents whilst being used by the Office of the Provincial Deputy Director of Health Services, had remained uncovered and decaying at the premises of the provincial drug stores in Monaragala.

(b.) Assets Released to External Parties

An area of 528 square feet at the premises of the Teaching Hospital in Anuradhapura had been granted for maintaining a branch of the Bank of Ceylon since the year 2007, whilst an area of 100 square feet had been provided with a private institution since the year 2008 for maintaining a communication center. The branch of the bank had been air-conditioned, whilst the electricity for the lighting and electric items of the communication center had been obtained from the electricity grid of the hospital itself. However, the Hospital had not taken action to reimburse the building rentals, and electricity and water charges even by 01 January 2017 from that two institutions.

(c.) Conducting Annual Board of Survey

The following observations are made.

(i) According to Public Finance Circular, No. 05/2016, dated 31 March 2016, the annual Board of Survey for the year 2016 should have been conducted and the reports thereof should have been furnished to the Auditor General prior to 15 June 2017. Reports relating to 17 hospitals and institutions among the Ministry, hospitals and institutions functioning thereunder, had not been furnished to the Auditor General even up to 30 November 2017.

(ii) Action had not been taken in terms of Financial Regulations on the surpluses, shortages, and other recommendations pointed out through the reports of the Board of Survey for the year 2016.

3.10 Unsettled Liabilities

The following observations are made.

(a.) The liabilities continued to exist for a period of less than one year and not settled by the Ministry, totaled Rs. 13,624 million as at 31 December 2016.

(b.) Liabilities valued at Rs. 1,028 million had been committed in excess of the saving after utilization of the provision made for 44 Objects contrary to Financial Regulation 94(1).

3.11 Non-Compliances

Non-compliances with Laws, Rules, and Regulations

Instances of non-compliance with Laws, Rules, Regulation and Management Decisions observed in audit test checks are given below.

Reference to Laws, Rules and Regulations	Value Rs.	Non-compliance
(a.) Statutory Provisions		
Value Added Tax Act, No. 14 of 2002 and the amendment relating thereto.		In case that the total value of the supply of goods and services exceeds Rs. 3 million per quarter or Rs. 12 million per year, the supplier should be

			registered for Value Added Tax in terms of the Act. Any exemption on Value Added Tax for a supplier should be certified with a certificate obtained from the Department of Inland Revenue. Although 2 suppliers had supplied goods and services for the Kandy Hospital and Sirimavo Bandaranayake Specialized Childrens' Hospital in the year under review by exceeding the said limits, payments had been made to them irrespective of whether they had been registered for Value Added Tax or exempted therefrom.
(b.)	Establishments Code of the Democratic Socialist Republic of Sri Lanka		
(i)	Section 9 of Chapter XV.	31,084	Not more than one Warm Clothing allowance should be granted in respect of foreign tours during a period of 05 years. Nevertheless, that allowance had been paid to an officer of the Ministry in both of the years 2014 and 2016.
(ii)	Section 11.1 of Chapter XV.	2,191,795	In the years 2015 and 2016, the Director General of Health Services and the Private Secretary of the Honourable Minister of Health, Nutrition & Indigenous Medicine had proceeded abroad in business class instead of the economy class without a proper approval in violation of the provisions of the Establishments Code. As such, an additional expenditure of Rs. 2.19 million had to be incurred by the Government.

(c.)	<u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</u>		
(i)	Financial Regulation 260.	10,157,551	When obtaining goods and services for the General Hospital of Kandy, the payment vouchers had been prepared under different names instead of the relevant contractor thus making payments through cheques. Furthermore, instances were observed in which payments had been made under names other than those who had supplied goods and services for the Sirimavo Bandaranayake Specialized Childrens' Hospital
(ii)	Financial Regulation 751 (1)		(i) All the goods sent to the Government institutions, should be recorded in the inventory after being received by the stores, and issued to the relevant sections later. However, the goods had directly been received by the Infection Control Unit of the Kandy General Hospital from the suppliers, and recorded later in the inventory and the Health 500 Book. (ii) Nine items of consumer goods valued at Rs. 618,337 had been purchased in the year 2016 by the stores of the consumer goods of the General Hospital, Kandy. However, those goods had been issued without being recorded in the stock books.

(d.)	<u>Public Finance Circulars.</u>		
(i)	Circular, Nos 03/2014, dated 30 December 2014 and 03/2014 (I), dated 10 March 2015, and Letter, No. NPC/9/1/30 of the Secretary of the National Salaries and Cadre Commission, dated 10 September 2015.	191,970,000	A sum of Rs. 2,500 can be payable to Medical Officers of the primary grades or Grade II Medical Officers as monthly communication allowance, but a sum of Rs. 4,000 had been paid instead. The amount so paid in the preceding year and the year under review to 12,176, and 10,665 Medical Officers respectively, totaled Rs. 411 million.
(ii)	Circular, No. 01/2015/01, dated 15 May 2015.	3,673,230	Prior to granting allowances for the foreign tours, it is necessary to verify as to whether the allowances are granted either by the foreign Government or the donor institution. Nevertheless, allowances had been paid in 3 instances without doing so.
(e.)	<u>Circulars of the Prime Minister's Office</u>		
	Circular, No. PM/PS/5, dated 30 November 1989.	37,767,066	A report containing the benefits , new ideas, and proposals received by the country through the relevant tour should be presented within a period of 07 days after returning of the officers who proceeded abroad on official purposes. However, of the 64 officers who had proceeded abroad in 20 instances spending a sum of Rs. 37.76 million, only 11 officers had presented such reports.
(f.)	<u>Government Procurement Guidelines.</u>		
(i)	Guideline 2.14.1	25,897,193	As the General Hospital of Kandy comprises a Divisional Procurement Committee, the Hospital is vested with the authority to procure goods and

		services valued up to Rs. 1 million by following the Shopping Method. However, by exceeding that limit, waste bags, aprons, X-Ray covers, and CT-MRI covers had been procured for the Infection Control Unit of the Hospital through the Shopping Method. A sum of Rs. 25,897,193 had been incurred thereon in the year under review.
(ii) Guidelines 2.8.4 and 2.8.5	-	Procurements had been made for the Infection Control Unit and Radiology Unit of the Kandy General Hospital, and the Cleaning Unit of the Teaching Hospital in Gampola without appointing a Technical Evaluation Committee to decide on the quality and specifications of the procurements.
(iii) Guideline 7.9.10	-	When procuring waste bags of the color yellow for the Sirimavo Bandaranayake Specialized Children's' Hospital, the Technical Evaluation Committee had decided to purchase bags from the supplier who had furnished higher bids without complying to the specifications by turning down the supplier with lowest bids furnished in compliance with the specifications.
(iv) Guideline 8.9.1		The General Hospital of Kandy and the Sirimavo Bandaranayake Specialized Children's Hospital had not entered into Agreements in respect of the contracts exceeding Rs. 500,000.

3.12 Foreign-Funded Projects

The following observations are made in the audits carried out on the foreign-funded projects.

(a.) Second Health Sector Development Project

The Second Health Sector Development Project, a five year project financed by the International Development Fund, had been commenced in the year 2013 and scheduled to be completed by the year 2018. Provision amounting to Rs. 5,584 million had been made within 4 years from 2013 up to the year under review, whereas the actual expenditure amounted to Rs. 2,818 million by the end of the year under review.

Establishing Emergency Treatment Units newly at 14 Government hospitals, and modification of existing Emergency Treatment Units at 14 other Government hospitals, had been the main targets of the project. However, by the end of the year under review, only the contracts had been awarded in respect of 04 Emergency Treatment Units to be constructed newly, whilst the modification of 09 existing Emergency Treatment Units only had been completed.

It was another objective of the project to evaluate the trend of the people over 40 years of age referring to Suwa Divi Centers in view of diagnosing non-communicable diseases. As compared with the preceding year, it was revealed that the number of persons visited the Suwa Divi Centers had decreased by 251,368 in the year under review. It was hence observed that awareness programmes had not adequately been conducted to encourage people to visit the Suwa Divi Centers for the identification of non-communicable diseases.

Despite being expected to identify 13,577 new patients with tuberculosis in the year under review, only 9,293 patients had been identified due to inadequacy of the measures taken to conduct awareness programmes and improve the facilities for providing treatments.

(b.) Delay in the Construction of Epilepsy Unit of the National Hospital of Sri Lanka

The estimated value of the project for the construction of 8 storied Epilepsy Unit of the National Hospital of Sri Lanka, and the implementation of Epilepsy Management Programme island wide, amounted to 281.25 million Saudi Riyals. The total of the loan granted by the Saudi Development Fund for this project commenced in the year 2008, amounted to 120 million Saudi Riyals, and the project was scheduled to be completed by the end of the year 2016. However, the Epilepsy Unit constructed at the premises of the National Hospital of Sri Lanka, had been declared open on 24 October 2017, but the Epilepsy Management Programme had not even been commenced even up to 30 November 2017. Loan installments totalling 13.13 million Saudi Riyals and interest totalling 2.83 million Saudi Riyals had been repaid by 31 December 2016 though, no benefits could be achieved due to delay in the project. Furthermore, a sum of Rs. 337.26 million had been spent on the procurement of medical equipment for the Neurology Unit of the National Hospital that had not been relevant to the objectives of the project.

3.13 Performance

Observations on the progress of the Ministry in accordance with the annual budget for the year 2016 and the Action Plan, are as follows.

(a.) Activities Contrary to Main Functions

All the maintenance activities of the “Bhadrawathi- the national center for taking care of ailing bhikkus” that had not functioned under the purview of the Ministry with no provision made through annual budget estimate, had been carried out by the Ministry over many years thereby incurring expenses. In the preceding year and the year under review alone, sums of Rs. 10.9 million and Rs. 15.1 million had respectively been spent thereon. In terms of the Cabinet Decision, No. අමප/ 14/1407/509/064, dated 25 October 2014, the Secretary to the Ministry should have taken measures to restructure this center into a reputed and legal institution through an Act of Parliament, but even up to 30 November 2017, the restructuring of the said center had not been completed.

(b.) Private Health Services Regulatory Council

The following observations are made.

(i) The Private Health Services Regulatory Council had been established in the year 2007 with the objective of improving and regulating the health services offered by the private sector. In order to achieve the following objectives, Rules had not been formulated and enforced relating to the private medical institution in terms of Sub-sections 19 (1) and 19 (2) of the Private Medical Institutions (Registration) Act, No. 21 of 2016.

- Supervision and monitoring of standards that should be maintained by the registered private medical institutions.
- Implementation of a methodology for evaluating the standards maintained by the private medical institutions.
- To ensure that minimum qualifications are met when recruiting persons to the private medical institutions, and minimum standards are followed when employees are trained.
- To ensure the quality of services either offered or supplied by the private medical institutions relating to looking after of the patients.

(ii) According to the provisions of Sub-section 2(1) of the Act, the number of private medical institutions registered in the year 2007 had been 1,747, and by the year under review, that number had gradually decreased to 1,024. However, the Council had not formulated and implemented a proper methodology in view of identifying the private medical institutions to be registered, inducing them for registration, and execute the provisions in Section 4 of the Act against the institutions reluctant to register.

(iii) The financial statements of the Council had not been furnished to audit since the year 2011.

3.14 Deficiencies in Operating Bank Accounts

The following observations are made.

(a.) According to the bank reconciliation statements prepared as at 31 December 2016 in respect of 14 hospitals and institutions under the purview of the Ministry, action had not been taken in terms of Financial Regulation 396 (d) on 74 cheques valued at Rs. 1.02 million that had remained uncashed for more than 06 months from the date of issue.

(b.) According to the bank reconciliation statements prepared as at 31 December 2016 in respect of 02 hospitals and institutions under the purview of the Ministry, action had not been taken even by the end of the year under review to account a sum of Rs. 130,602 that had not been identified despite being debited to the account as at that date.

3.15 Irregular Transactions

Some of the transactions performed by the Ministry had been devoid of regularity. Some of such instances observed are as follows.

(a.) In order to introduce the high energy radiation therapy for the cancer patients replacing the obsolete Cobalt therapy, approval of the Cabinet had been granted in the year 2012 for a project valued at US $ 53.38 million. Although an unsolicited proposal had been submitted by a foreign bank to finance the said project planned to be implemented under 02 phases at 10 hospitals, the Treasury had refused to agree with the conditions of the loan.
However, having been provisioned by loans of the World Bank, and domestic funds, 04 Linear Accelerators had been purchased from the same supplier at the same prices mentioned in the proposal refused by the Treasury by paying US $ 8.8 million equivalent to 80 per cent of the cost thereof without complying with the Procurement procedure, while agreeing to pay the rest of the 20 per cent after installation of the machines.
In order to construct bunkers at 05 hospitals to house the said radiology equipment, the contract valued at Rs. 1,103 million had been awarded to the Central Engineering Consultancy Bureau on the basis of designing and construction on 11 June 2014 by deviating from the Procurement procedure. The constructions that should have been completed by the end of April 2015, had not been completed even up to 01 August 2017 indicating a delay of more than 02 years.

Due to delay in the construction of bunkers, 03 out of 04 machines, had remained idle for a period of more than a year.

(b.) Providing bogus reasons such as the contractors had been blacklisted, and they had not presented bank sureties, the Technical Evaluation Committee had recommended the 2 contractors who had submitted the lowest bids, to be disqualified, and the contractor who had submitted a monthly fee exceeding the lowest bid by Rs. 65,000 for maintaining and servicing the electrical wiring system of the Anuradhapura Teaching Hospital, had been recommended. Moreover, this contract had continuously been awarded to the same contractor over a period of 17 years, and during the 05 year period 2012-2016, a same group of people had been appointed as the members of the Technical Evaluation Committee.

(c.) A Flexible Ureter Scope had been purchased for the Nawaloka Theatre of the National Hospital of Sri Lanka in the year 2013 by spending a sum of Rs. 3,058,952. The following observations are made in respect of that transaction.

i. The standard bidding documents had not been made use of for this Procurement contrary to Guideline 5.2.1 (a) of the Government Procurement Guidelines. The bidding register prepared in that connection had not contained all the information required for a bidder to prepare bids. As such, the opportunity for submitting bids had been restricted, and only 03 bids had been received .

ii. Contrary to Guideline 2.8.1 (b) of the Government Procurement Guidelines, a biomedical engineer had not been appointed as a member of the Technical Evaluation Committee as a subject expert.

iii. Specifications had not been included in the bid register. Bids had been evaluated by taking into account only the flexibility of the instrument.

iv. During the period 24 October 2013 - 27 May 2017, only 8 tests had been carried out with this instrument received by the hospital on 13 September 2013, and the instrument had become non-functional by 27 May 2015. The supplier had been informed that the instrument had become non-functional after a period of one year six months, and after a lapse of another 07 years, the instrument had been handed over to the supplier on 23 June 2017. Stating that an extensive amount would be incurred on repairs, action had been taken to swap the existing instrument with a new one at an exchange price of Rs. 1,592,600, and the new instrument had been received by the hospital on 15 November 2017. Nevertheless, a Flexible Ureter Scope had been purchased from another company on 14 June 2016 incurring a sum of Rs. 2,055,000, and hence, it was observed that a sum of Rs. 2,596,552 had been incurred on the new instrument in excess of the average market price.

v. Although a Flexible Ureter Scope had been purchased from another company on 14 June 2016 incurring a sum of Rs. 2,055,000, it was revealed that the new instrument too had become non-functional within a period as short as 16 months.

vi. Owing to those two instruments becoming non-functional, it was observed that a large of no of patients with kidney diseases being assisted by those instruments had been in the waiting list by 13 October 2017.

(d.) Fourteen ICU Ventilators had been purchased by incurring a sum of Rs. 37,660,000 to be used in the Intensive Care Units of the National Hospital of Sri Lanka. The following observations are made in connection with that transaction.

i. According to Guideline 4.2.3 of the Government Procurement Guidelines, the time to be spent on the Procurement process relating to the inspection of bid documents, approval of the Technical Evaluation Committee and awarding of the contract with respect to procurements valued at Rs. 5 million – Rs.25

million, should be 12 weeks. However, as this Procurement had been divided into 2 stages, a period of 30 and 36 weeks had been spent.

ii. Contrary to Guideline 2.6.1 (a)(ii) of the Government Procurement Guidelines, the Technical Evaluation Committee had not taken action to review and approve the specifications prior to being presented to the Procurement Committee in order to ensure that the specifications are generic in nature and competitiveness could be promoted on an equal level.

iii. Contrary to Guideline 2.11.1 (c) of the Government Procurement Guidelines , a first meeting had not been held jointly with the Procurement Committee and the Technical Evaluation Committee to agree on the procurement time schedule, method of procurement, and type of bidding document.

iv. Contrary to Guideline 2.11.3 of the Government Procurement Guidelines, the reports of the Procurement Committee and the Technical Evaluation Committee had not been prepared in the specified format.

v. Contrary to Guideline 2. 12 of the Government Procurement Guidelines, the members of the Procurement Committee and the Technical Evaluation Committee, and the clerks had not signed the declaration format affirming confidentiality.

vi. Contrary to Guideline 6.3.6 of the Government Procurement Guidelines, the proceedings of the bid opening had not been recorded in the prescribed format.

vii. Contrary to Guideline 7.8 of the Government Procurement Guidelines, the first stage of bid examination had not been carried out under the general principles.

viii. Bids had been evaluated irrespective of the absence of reference numbers in the relevant data sheet, catalogue and the technical specifications.

ix. An Agreement had not been prepared and signed contrary to Guideline 8.9.1 (b) of the Government Procurement Guidelines.

x. Only 07 instruments ordered on 03 May 2017 had been supplied in conformity with the conditions of the order, but the other 07 instruments ordered on the same date, had not been supplied even up to 06 November 2017. The period of delay had exceeded 16 weeks though, no penalties for delay could be charged as conditions relating to late penalties had not been included in the order.

3.16 Projects for the Construction of Buildings

Having been commenced by the Ministry of Health, Nutrition & Indigenous Medicine, the number of building construction projects still in progress even by the end of the year 2016, had been 40, and of that, the number of buildings being constructed in the Western Province, had been 15. The following observations were made in the audit examination carried out on that 15 construction projects.

(a.) Nine engineers including a chief engineer had been attached to 09 projects of which the value of engineering estimates ranged between Rs. 175 million to Rs.3,897 million, out of 15 construction projects being implemented in Western Province. Those projects had been implemented under the supervision and administration of the Logistic Division established in the Ministry. The value of the engineering estimates of the rest of 06 projects, ranged between Rs. 543 million to Rs. 4,308 million. Engineers had not been attached to those projects; instead they had been implemented under the supervision and administration of the other Divisions. Information relating to the basis on which the building construction projects had been assigned to other Divisions external to the Logistic Division in a manner that such projects could be implemented without being supervised or administered by the engineers, had not been made available to audit.

(b.) The contract for the construction of stores No. 02 in Angoda for the Medical Supplies Division, had been awarded to a private company on 29 May 2008 at a contract price of Rs. 126,276,118 excluding tax, following recommendation of the Technical Evaluation Committee appointed by the National Procurement Agency, and the approval of the Ministerial Procurement Committee appointed by the Cabinet. The following observations are made in connection with that contract.

(i) According to the Contract Agreement, the construction should have been completed by 25 June 2009, and provision had adequately been made for the years 2008 and 2009, but due to failure in adhering to the Action Plan and carrying out constructions under proper supervision, the constructions had been completed after a delay of more than 07 years on 31 December 2016.

(ii) Contrary to Guideline 8.14 of the Government Procurement Guidelines, the period of contract had been extended for a period of 01 year and 04 months from 15 May 2013 to 15 September 2014 sans any documentary evidence to establish that delays had been attributable to Force Majeure situations.

(iii) Although the Ministry had been informed by the Central Engineering Consultancy Bureau, the consultancy firm of the contract, that the progress of the contract had been decelerating and neglected, with the performance being poor, no action had been taken to avert that situation.

(iv) Due to delays in constructions, a sum of Rs. 5.32 million had been paid to the contractor by way of price variances, whilst an additional consultancy fee of Rs. 11.75 million had been paid to the consultancy firm.

(v) The Ministry had been informed by the consultant on 01 November 2013 that the first contractor had abandoned the constructions halfway. The performance bond had expired on 31 May 2014, but action had not been taken to encash the performance bond prior to being expired.

(vi) Action had not been taken in accordance with the Contract Agreement to recover 20 per cent of the value of the uncompleted works from the contractor, and charge penalties at Rs. 5,000 per day for the period of delay.

3.17 Transactions of Fraudulent Nature

The following observations are made.

(a.) A bio-chemistry equipment, having been purchased for the Teaching Hospital of Anuradhapura in October 2012 at a sum of Rs. 4,011,358, had been installed at the Renal Lab on 24 October 2012. The warranty period of the equipment had expired on 08 September 2004, and it was also observed that the instruction manual provided therewith, had been issued in the year 2008. As it could not be verified through custom clearance that the said equipment had been imported by the supplier during 2010-2013, it was ascertained that the equipment had not been branded but assembled.

(b.) The General Hospital of Kandy had accepted waste bags that had not complied with the height and width mentioned in the specifications, from the suppliers. As such, based on the height and width of the bags supplied, an overpayment of Rs. 5,123,531 had been made to the supplier.

(c.) According to the Stock Register of the Infection Control Unit of the General Hospital of Kandy, the stock balance of aprons had been stated to be 44,838 as at 31 January 2017, but it was observed in audit that the said balance had been 139,903 units as at that date. Accordingly, the Stores Register had been balanced with a deficit of 95,065 aprons.

(d.) Four suppliers had submitted bids separately relating to the procurement of goods for the General Hospital of Kandy. It was revealed that all 4 bids had been furnished by the same supplier in a fraudulent manner. Moreover, bids had separately been furnished by 03 suppliers to supply waste bags for the Sirimavo Bandaranayake Specialized Childrens' Hospital, but it was also revealed that all 03 bids had been furnished by the same supplier fraudulently.

(e.) Despite being recorded in the Stock Register of the main stores that, after purchasing 48,000 CT-MRI covers valued at Rs. 1,416,000 for the Radiology Unit of the General Hospital of Kandy, 15,000 covers had been provided with the said Unit, it was revealed in the inspection of Health 500 Book being used in issuing items, that only 5,000 covers had been issued to that Unit. As such, the cost on the 10,000 covers not issued, totaled Rs. 295,500.

(f.) The former store keeper of the General Hospital of Kandy had not handed over 10,000 CT-MRI covers to the newly appointed store keeper, and the total cost thereof amounted to Rs. 29,500.

(g.) Despite being recorded in the Stock Register that 66,000 X-Ray bags purchased at the value of Rs. 1,749,000 for the Radiology Unit of the General Hospital of Kandy, had been issued to that Unit by the main stores, it was revealed in the inspection of Health 500 Book being used by the Radiology Unit in receiving goods, that 6,050 bags valued at Rs. 160,325 had been issued in deficit.

(h.) Despite being recorded in the Stores Register that timber of Yelow Cempaka (*Ginisapu*) and Toona planks, laths, clubs, and plywood received by the stores of the consumer goods of the General Hospital of Kandy on 11 November 2015, had been issued to the Carpentry Unit, it was revealed in the inspection of Health 500 Book being used by the Carpentry Unit in receiving goods, that timber costing Rs. 210,124 had not been issued.

(i.) An excess of 26,580 units belonging to 04 types of waste bags costing Rs. 425,628, and a shortage of 185,025 units belonging to 05 types of waste bags costing Rs. 4,244,932 had been observed to exist at the stores of the Infection Control Unit of the General Hospital of Kandy in the physical inspection carried out on 26 April 2017.

3.18 <u>Losses and Damages</u>

The following observations are made.

(a.) A medical officer of the Teaching Hospital of Anuradhapura had proceeded abroad for a period of one year from 01 January 2012 to 31 December 2012 on a surety bond of Rs. 250,760 in terms of Section 16 of Chapter XII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. Despite being approved to proceed abroad for a period of one year without salaries, the period of leave had annually been extended in 04 instances by 31 December 2016 upon the request of the relevant medical officer. Although the leave to proceed abroad had not been approved after 31 December 2016, the relevant medical officer had not returned for duty even by the date of audit, 06 February 2017. Nonetheless, no action had been taken to recover a sum of Rs. 1,180,662 from him or the guarantors on his behalf.

(b.) In terms of Financial Regulation 715 (2), proper custody of stores should have been ensured by keeping them in good condition and methodically arranged, so as to admit of easy location and verification at any time. Goods had irregularly been stacked at the stores being maintained by the Infection Control Unit of the Kandy General Hospital, and a large stock of aprons and waste bags had been destroyed by rats beyond usage. The Ministry had not taken action in terms of Financial Regulation 103 and 104 on the said damage.

(c.) According to the Agreement signed with the institution providing janitorial services for the Teaching Hospital, Gampola, a monthly sum of Rs. 54,000 had been paid to that institution for the supply of 4,750 black coloured bags of the sizes big and small being used for the disposal of waste. The Hospital had made use of 93,935 waste bags from January 2016 up to June 2017, and of that, 85,000 bags should have been supplied by the Cleaning Unit. Accordingly, only 8,435 waste bags should have been supplied by the Hospital, but 36,865 waste bags costing Rs. 280,174 had been supplied in excess.

(d.) Without drawing up adequate rules in terms of Financial Regulation 763, stocks had been stored at the sub stores of the medical supplies in Warapitiya, Kundasale. Owing to that, 787 vials of Dextrose 5 % M/500 ml valued at Rs. 42,671 had been destroyed by rats.

(e.) Airline tickets had been reserved incurring a sum of Rs. 991,000 in view of participating in the HIV/Aids conference held in New York, USA from 08 June 2016 to 17 June 2016. However, as the tickets had later been cancelled, only a sum of Rs. 894,528 had been refunded, thus resulting in a loss of Rs. 96,472. Moreover, airline tickets had been reserved spending a sum of Rs. 38,500 for taking part in the training programme named "Course on health policy and the role of date of technology in health care" held in Singapore from 19 September 2016 to 23 September 2016. However, as the relevant officer had not taken part therein, a loss of Rs. 38,500 had incurred. Action had not been taken to recover the loss from the officers responsible.

(f.) Differences were observed in 10 items valued at Rs. 289,286 when transferring the balances of the Stock Registers to new registers being maintained at the stores of the consumer goods of the General Hospital of Kandy.

3.19 Medical Supplies Division

The following observations were made in the audit test check conducted on the Medical Supplies Division.

(a.) Although the Cabinet had decided that no medical supplies should be purchased sans recommendation of the Drugs Formulary Revision Committee, 4,619 items out of 16,638 items of medical supplies being in use, had been made use of without approval of the said Committee, and that represented 27.8 per cent.

(b.) Issuing orders to the State Pharmaceuticals Corporation by the Medical Supplies Division for purchasing estimated items within a supplying period of 11 months, had been the policy. But, the State Pharmaceuticals Corporation had failed to provide the medical supplies without a delay. The total number of items ordered relating to the medical supplies for the year 2016, had been 8,384, and of that, 5,178 items or 62 per cent had not been supplied by the State Pharmaceuticals Corporation. Owing to this delay, medical supplies had been purchased from the local market incurring heavy costs in each year. In the year under review alone, the total cost of the medical supplies purchased from the local market, amounted to Rs. 8,292 million, indicating an increase of 192 per cent as compared with the preceding year. The additional cost incurred during 2007-2016 amounted to Rs. 5,166 million due to the medical supplies purchased from the local market. The local market price of certain medicines had been unusually higher than that of the State Pharmaceuticals Corporation's.

(c.) The delay in the supply of medicines had been attributable to the delay of the Procurement procedure of the Ministry, or the delay of the supplier; nonetheless, the Ministry had not prepared a methodology even in the year under review in order to identify the party responsible for the delay. No methodology had also been identified in the year under review to recover the additional costs incurred on the urgent purchase of medicine by the hospitals due to delay in the supply of medicine. As such, an additional cost of Rs. 5,166 million had been incurred due to the said delays, but the Ministry had failed to recover that cost in terms of the Agreement entered into with the State Pharmaceuticals Corporation. In order to recover the additional costs, incurred due to the delay of the suppliers, from the suppliers responsible, the Medical Supplies Division had not furnished the relevant information to the State

Pharmaceuticals Corporation prior to the cancellation of performance bonds or paying the retention money of the letters of credit.

(d.) A methodology had not been introduced to assure quality of all the medical supplies sent to the Medical Supplies Division after being purchased by the State Pharmaceuticals Corporation, and laboratory facilities and staff had not adequately been provided in that connection. As the medical supplies purchased had been issued to the hospitals without being tested for quality, problems had later arisen relating to the quality of the medical supplies, and the supplies had been sent to the quality assurance lab only in such instances. Furthermore, there had been no laboratory facilities to conduct sample tests once the medical supplies including drugs, obtained from the private suppliers are received by the Medical Supplies Division, before being issued to the patients. Owing to this, it was observed to have been revealed later that a considerable quantity of medicinal supplies, issued to the hospitals annually, had failed quality tests. The total cost of the medicines that had been disposed of having been failed the quality tests in the 05 year period, 2011, 2012, 2013, 2014, 2015, and 2016, had been Rs. 3,374 million.

(e.) Based on the quality assurance reports on medicines issued by the National Drug Quality Assurance Laboratory, it had been expected in terms of Circulars to prevent the substandard and inferior medicines from being prescribed to the patients by suspending or removing the medicines issued by the Medical Supplies Division despite failing quality tests. Nonetheless, it was observed that the relevant objective could not be achieved due to reasons such as, inadequacy in the capacity of the National Drug Quality Assurance Laboratory, taking longer periods for tests, increased number of samples to be tested in the wake of the increase in the number of items of medicine purchased, and the delay in issuing Circulars informing on the substandard medicines.

(f.) The total cost of 30 types of medical supplies that had been withdrawn in the year under review after failing quality tests, amounted to Rs. 602 million, indicating an increase of 258 per cent as compared with the preceding year. Thirty items of medical supplies valued at Rs. 525 million, had already been issued to the patients in the year under review as the order was received to withdraw medical supplies valued at Rs. 602 million that had failed quality tests including, medicines used for emergency surgeries, medicines used to treat diabetes, medicines prescribed for pregnant women, antibiotics, blood bags, and bandages. That indicated 87 per cent of the total value of the medicines that had failed quality tests, and 19 items of that valued at Rs. 377 million including antibiotics, medicines for diabetes, epilepsy and measles, medicines for pregnant women, and bandages, had been issued to patients in the range of 93-100 per cent. As such, those medicines were revealed to have failed quality tests after being issued to the patients.

(g) Instructions had been given for the issuance of orders for the suspension of the utilization of medical supplies that failed quality tests through the circulars during the year under review. The computer system had not been used thereon. Even though the delivery of medical supplies that failed quality tests had been revealed in 16 instances out of 57 instances, the orders for the suspension of those medical supplies had been issued to the relevant hospitals and institutions after a delay for a period from 20 days to 140 days. The process from making complains on the items that failed quality tests up to their issuance and suspension had been carried out through the PRONTO computer system. The Audit had been informed that no delays would be experienced in future in the issuance of circulars due to the above process. Nevertheless, it was observed that the issue of orders relating to the drugs that failed quality tests could not be carried out through the PRONTO computer system despite lapse of a period nearly one year for that process.

(h) The Ministry had not taken action to establish adequate laboratory facilities for the National Drugs Quality Assurance Laboratory established for testing quality of the medical supplies and to recruit an adequate staff following the same was converted into an Authority. It was revealed in the audit test check carried out on 23 items of tests during the year under review that due to the delay occurred in the issue of reports by completing the tests on the quality of the medical supplies, 07 items of medical supplies withheld due to failure in quality tests valued at Rs.5.16 million had expired owing to delays of the future testing activities.

(i) When the receipt of drugs ordered from the State Pharmaceutical Corporation was delayed, the Medical Supply Division had purchased 05 items of drugs valued at Rs.59.15 million from the local market as urgent purchases. It was observed that the above drugs had failed the quality test. It was accordingly observed that, although the Government had made attempt to supply drugs to the people without any shortage by purchasing them at high price, that intention had not been fulfilled.

(j) For the minimization of the supply of the drugs that failed quality tests, action should be taken to back list those suppliers and impose strict laws and rules in obtaining reregistration in the National Medicines Regulatory Authority, whereas it was observed at the audit test check carried out on the drugs that failed quality tests in the years 2014,2015 and 2016 that action had not been taken accordingly. Instead, the supplier who had supplied the drugs that failed quality tests had been given order for the same drug and the suppliers who had supplied several kinds of drugs that failed quality tests had been given orders for other drugs repeatedly.

(k) While stating the fact that the items of medical supplies were failed in quality, 180 circulars had been issued during the period from the year 2014 to 2016 and out of which 117 circulars had been issued owing to failure in quality of the items of medical supplies imported from India. Apart from that, 10 and 08 circulars had been issued due to failure in the quality tests of the items of medical supplies imported from Pakistan and Bangladesh respectively. Accordingly, it was observed that special attention should have been drawn in the import of items of medical supplies from India, whereas action had not been taken accordingly.

(l) Once it was revealed that the Folic Aside drugs valued at Rs.196.67 million purchased from the State Pharmaceutical Manufacturing Corporation in the years 2013,2014 and 2015 were failed in quality, it had been removed from using on 09 August 2016. Nevertheless, 98 per cent of the total drugs stock valued at Rs.184.41 million had already been issued to the pregnant mothers. This drug which minimizes the risk of being afflicted with diseases connected with nervous system of the child is prescribed to the pregnant mothers before and after the first 03 months of her pregnancy. As the drug thus prescribed being failed in quality test, a severe social issue may be created by delivering ailing children and it might have been adversely impacted on the peoples' reliability on the Government health service. Similarly, the value of this stock of drugs had not been recovered from the State Pharmaceutical Manufacturing Corporation even by 15 August 2017, the date of audit.

(m) For the purpose of importing dependable and high standard medical supplies suitable to the health care requirements at a reasonable price, registration of medical supplies are carried out by the National Pharmaceutical Regulatory Authority only after the conduct of quality test and accordingly, it had been expected to import only the registered medical supplies to the country. Nevertheless, the Medical Supply Division had awarded contracts to the suppliers who had not registered with the State Pharmaceutical Regulatory Authority and the National Pharmaceutical Regulatory Authority had issued No Objection Letters to the Sri Lanka Customs in respect of such purchases. Hundred and eight No Objection Letters and 134 No Objection Letters had been issued to the Medical Supply Division in the years 2015 and 2016 respectively.

(n) The Bupivacaine vaccines and the supplier who supplied those vaccines had not registered with the National Pharmaceutical Regulatory Authority. Nevertheless, 12,500 Bupivacaine vaccines valued at Rs.4.93 million had been purchased from that company on 19 February 2015. In order to clear those vaccines from the Sri Lanka Customs, the National Pharmaceutical Regulatory Authority had issued a No Objection Letter 09 February 2015. Nevertheless, since these vaccines being disqualified in quality tests, the entire stock had been removed from using on 23 February 2017. As encouragement had been given for the import of drugs not registered with the National Pharmaceutical Regulatory Authority by issuing No Objection Letters, the Ministry had failed to prevent the import of the drugs that failed quality tests into the country.

(o) The Cabinet had decided to recover the cost of the drugs that failed quality tests and the administration expenses of 25 per cent form the suppliers. The value of the drugs that failed quality tests in the year 2013 had not been furnished to audit. Except for that year, for the drugs that failed quality tests and purchased from the State Pharmaceutical Corporation during the period of 05 years from the year 2011 to 2016, the Medical Supply Division had recovered only a sum of Rs.893.5 million from the State Pharmaceutical Corporation and the amount that further remained recoverable as at 31 December 2016 had been Rs.254.7 million. However, the State Pharmaceutical Corporation had recovered only a sum of Rs.380.34 million from the suppliers. The suppliers had alleged that the drug stores and the vehicles used for the transport of drugs were not up to the prescribed standard and as a results, drugs become fail in quality once they were imported to the country. Therefore, it had not been possible to recover value of certain drugs that had subjected to such allegations.

(p) Although the Medical Supply Division should maintain a buffer stock sufficient enough to 03 months, it was established in audit test check that there existed 7,223 items of medical supplies that had not fulfilled the above requirement and of which, stocks of 1,607 items of essential medical supplies had become zero.

(q) In the examination of a sample of 28 drugs out of 98 essential drugs the stocks of which had become zero, it was revealed that stocks of 11 kinds of drugs including the drugs essential for Kidney diseases, Bladder infection, Rheumatic diseases and Respiratory ailments had become zero in the Medical Supply Division and the hospitals as at 12 June 2017. Accordingly, the services of supplying essential drugs to the patients had not been implemented continuously and formally.

(r) As there was no sufficient space in certain drug stores, without being accepted the medical supplies of high value from the transport services supplier, those had been kept in the corridors opposite the stores and once the space was available, those had been accepted by the stores and Goods Receiving Notes (GRN) had been issued. It was established at the physical audit test check that stocks valued at Rs.72 million which had been accepted and not accepted by the Storekeeper been kept in the corridors opposite the stores. Although 09 kinds of drugs of the above stock should be stored at the temperate below 30 Celsius Degree, those had been kept along the corridors on the ground floor at a temperature above 30 Celsius Degree even without an electric fan for a period from 08 days to 53 days.

(s) Medical supply stores should be maintained at the proper temperature level and those should be examined by the management once at the proper time. Nevertheless, 23 items of drugs valued at Rs.104.37 million which should be stored at a temperature below 25 Celsius Degree as per the notification indicated on the outside of the packages had been stored and issued while being kept at a temperature above 25 Celsius Degree during a period from 13 days to 730 days . It was revealed at the physical audit test check that there were drugs applied for the sensitive organs such as eyes and some drugs essential for the kidney disease and the cesarean surgeries among the aforesaid drugs.

(t) Medical supplies distributed to 27 Regional Medical Supply Divisions (RMSD) located island wide by the stores of the Medical Supply Division are again distributed to the hospitals and the medical centres functioning under the Provincial Councils by those Medical Supply Divisions. Sixty one items of medical supplies valued at Rs.11.30 million that should be stored at a temperature below 25 Celsius Degree had been stored at a temperature between 27 to 38 Celsius Degrees. Further, due to lack of space facility at the Regional Medical Supply Division, Anuradhapura, 09 items of drugs valued at Rs.4.09 million had been kept in the open areas outside the stores and the corridors of the hospitals in Anuradhapura. The drugs that should be stored at a temperature below 25 Celsius Degree had been stored at a temperature between 34 to 36 Celsius Degrees at 10 hospitals in the North and North Central Province. Further, 03 items of drugs that should be stored at a temperature below 25 Celsius Degree valued at Rs.65.37 million had been stored at a temperature above 25 Celsius Degree at the Sub-Stores of the Medical Supply Division located at Digana, Warapitiya.

(u) Certain medical supplies purchased by the State Pharmaceutical Corporation had been transported to the Medical Supply Division under the normal temperature and due to the lack of space facilities in the cold rooms and in order to prevent the shortage of drugs, those stocks had been taken over and stored in the normal stores. Herein, it was observed that although the relevant stocks had been taken over by the Medical Supply Division with the intention of reimbursing such drugs if any damage caused to the drugs, it may affect the quality of the drugs for failure in storing them under the prescribed temperature.

(v) Due to not establishing a formal methodology for the distribution of drugs and the carelessness, medical supplies valued at Rs.3.88 million had been distributed to the National Hospital, Lady Ridgeway Hospital for Children, Apeksha Hospital and Mulleriyawa, Chillaw and Puttalam Hospitals from the Stores at Digana, Kandy. It was accordingly observed that the above situation may result in incurring an additional expenditure and it may affect the quality of the drugs.

(w) The National Disaster Management Ministry had incurred a colossal expenditure as clearance and transport charges in respect of the drugs and equipment of which value could not be computed and received as the assistance at the emergency disastrous situations such as floods. As those drugs had not been properly stored and distributed to the relevant parties, those had remained perishing. A large stock of drugs of which value had not been computed and received by the Medical Supply Division, free of charge subsequent to the court proceedings had become expired by 31 December 2016. Certain drugs out of the above drugs had not been disposed of despite the lapse of number of years from their expiry.

(x) Stenciling of the State Emblem on the containers of medical supplies delivered by the State Pharmaceuticals Corporation and the other suppliers was an order condition as well as an internal control strategy introduced. It precludes the misuse of the drugs stored in the Government Stores. Nevertheless, it was observed during an audit test check that 04 Items of medical supplies costing Rs.97.64 million of which the State Emblem had not been stenciled on their containers, remained in the stores of the Medical Supply Division.

(y) It was observed according to the PRONTO Computer System that 05 items of medical supplies valued at Rs.2.54 million had expired at the stores of the Medical Supply Division during the year under review and out of which, 02 items of drugs valued at Rs.359,723 had expired due to the carelessness of the officers. In addition, the medical supplies that remained expired in 42 hospitals and 19 Regional Medical Supply Divisions totalled Rs.488.89 million during the year under review.

(z) Irrespective of the objections raised by the oncologists on the quality, safety and the efficacy of the drug, the generic name of which was Trastuzumab and the trade name was Herticad prescribed for the Breast Cancer, that drug had been purchased by spending Rs.567.7 million during the year under review. Without being discussed on this drug called Herticad at 03 evaluation committee meetings of the National Pharmaceutical Regulatory Authority, the recommendation for the registration of this drug had been given at a committee meeting for which the Consultant Oncologist had not attended. As the evaluation of drugs was in progress, recommendation had been given to the effect that the registration could be granted in February 2016 if the evaluation would be satisfactory. Nevertheless, registration had been granted for this drug 05 days before making such recommendation.

3.20 Lady Ridgeway Hospital for Children

The following matters were observed at the audit test check carried out on the activities of the Lady Ridgeway Hospital for Children.

(a) The irregular transactions, carelessness, irregularities and inefficiencies observed relating to the Surgical Material Stores of the Lady Ridgeway Hospital for Children are as follows.

(i) Even though surgical materials should be issued only for a requisition form with due authority, surgical materials valued at Rs.57,599,162 had been issued to the Matron of the Cardiothoracic Operation Theatre in 115 instances for the requests made without due authority and surgical materials costing Rs.21,319,549 had been issued to the Perfutionist of the Cardiothoracic Operation Theatre in 15 instances for the request made without due authority during the year 2015 and 2016.

(ii) The surgical material should have been issued to the theaters as per the requirements while properly maintaining the surgical material stocks received by the Surgical Material Stores. Nevertheless, some instances were observed that the total stock received by the Surgical Material Stores had been entirely issued to the Cardiothoracic Operation Theatre at the same time. The approval of the Director of the hospital had not been obtained for such issuances. The total stock of surgical materials costing Rs.59,130,738 received from the Medical Supply Division in 35 instances from January 2015 to 31 December 2016 had been issued to the Cardiothoracic Operation Theatre.

(iii) Without considering that there were no facilities in the Cardiothoracic Operation Theatre to store the stocks, the Perfutionist of the Cardiothoracic Operation Theatre had requested the entire stock received by the Surgical Material Stores. The stocks thus received upon that request had not been made available to the Cardiothoracic Operation Theatre and those had been further retained in the stores. Out of surgical material costing Rs.55,354,474 issued to the Perfutionist in the years 2014,2015 and 2016, the surgical material equivalent to 59 per cent or costing Rs.32,550,845 had been retained in the Surgical Material Stores without being issued to the Cardiothoracic Operation Theatre.

(iv) It was observed at the physical stock verification carried out on 01 December 2016 that the surgical material that had failed quality test and the price of which could not be ascertained to compute their costs had been stored in the Surgical Material Stores. A large space of the Surgical Material Stores had been used for storing that surgical material stock which had failed the quality test from the year 2013. Nevertheless, necessary steps had not been taken to remove those stocks from the stores and the books.

(v) It was observed at the physical stock verification conducted on 23 December 2016 that, there was a shortage of stock costing Rs.130,547 and an excess of stocks costing Rs.177,197 of the surgical material named Endotracheal tube.

(vi) The Medical Officer in Charge of the Stores had presented two boxes containing expired surgical material named Endotracheal tube Pain 2m (SR No.565165 & 565173) for the physical stock verification conducted on 01 December 2016. Nevertheless, it was not possible to produce one of the above boxes for the physical stock verification conducted on 23 December 2016. No written evidence whatsoever had been furnished to audit to establish that the above box containing the surgical material had been disposed of during that period.

(vii) According to the entries made in the inventory, 16 units of Vascular graft tube costing Rs.645,000 received by the Surgical Material Stores from the Medical Supply Division on 15 November 2014 had been issued to the Cardiothoracic Operation Theatre on 20 November 2014. The Cardiothoracic Operation Theatre had returned the above 16 units to the Surgical Material Stores on the same day. Nevertheless, those 16 units returned had not been entered in the inventory of the Surgical Material Stores.

(viii) Entries had been made in the inventories to the effect that 433,539 units of 62 surgical materials items had been issued to the Cardiothoracic Operation Theatre and the other Divisions of the hospital. Nevertheless, it had been established that only 231,316 units of the above surgical materials had been received by the Cardiothoracic Operation Theatre and the other Divisions. Accordingly, a shortage of 202,223 units of surgical materials costing Rs.76,434,142 could be observed.

(ix) It had been recorded in the inventories that 12,471 units of 09 surgical material items had been issued to the Cardiothoracic Operation Theatre and the other Divisions of the hospital. As 14,958 units of surgical material items had been received by the Cardiothoracic Operation Theatre and the other Divisions, an excess of 2,488 units of surgical materials costing Rs.380,465 was observed.

(x) The entry of issuing 1,520 units of Arterial Catheter to the Cardiothoracic Operation Theatre on 22 September 2014 out of the Arterial Catheters received by the Surgical Material Stores from the Medical Supply Division during the period from 22 September 2014 to 16 March 2015 had been changed as 13,550 units. Accordingly, 13,550 units which had not been received by the Stores by 22 September 2014 had been recorded as an issuance on that date. Similarly, the 13,550 units of Arterial Catheter valued at Rs.22,744,452 recorded as the issuances had not been received by the Cardiothoracic Operation Theatre.

(xi) According to the requests made by the hospitals in outside areas, 9016 units out of 12 surgical material items had been issued from the stores. Nevertheless, it had not been established that the above stocks were taken over.

(xii) Four hundred units of Oxygenator had been received by the Surgical Material Stores on 18 March 2016 and that entire stock of 400 units had been issued to the Cardiothoracic Unit on 15 June 2016. Again, 140 units had been received by the Surgical Material Stores on 03 July 2016. As any issuance had not been carried out from that day up to 01 December 2016, the physical balance of the Oxygenators as at that date should have been 140 units. Nevertheless, it was observed at the physical audit test conducted thereon that there were 202 units of Oxygenators as at that date. Subsequent to inquiries made by the officer of the Audit Division with regard to the excess stock of 62 units, a Return Note had been issued for the 400 units issued on 15 June 2016 and those had been added to the stock on 03 December 2016. Accordingly, although the issuance of this massive stock had been carried out 06 months ago, it had been again added to the stock by a Return Note and therefore, it was clear that these 400 units had not been issued during the above period. Accordingly, it was observed in audit that in order to obtain 140 units again on 03 July 2016, the issuances had been used for the purpose of stating that this stock was not available as at that day. It was obvious by the absence of request or approval for the 400 units issued on 15 June 2016 that there was higher probability for this stock being misused.

(xiii) According to a written request made by the Director of the Teaching Hospital, Karapitiya on 14 September 2016 for 50 units of Oxygenators on credit basis, 50 units of Oxygenators valued at Rs.1,762,305 had been dispatched on 28 November 2016. Nevertheless, an issuing order had not been given relating to this issuance and an issuing note had not been made by the computer system or an entry had not been made as an issuance from the inventory. Further, the Director of the Teaching Hospital, Karapitiya had established that the above 50 units of Oxygenators had not been received by the Hospital.

(xiv) The Perfutionist had obtained surgical material stocks costing Rs.84,245,362 in 115 instances in the years 2015 and 2016 and the Matron had obtained surgical material stocks costing Rs.52,199,466 in 481 instances in the year 2016 from the Main Surgical Material Stores. Nevertheless, action had not been taken to document the receipt of those surgical material stocks.

(xv) Out of the surgical material obtained by the Cardiothoracic Operation Theatre as indicated in (xiv) above, only a balance of 253 items of surgical materials could be found as at 09 November 2016. Accordingly, the cost of total issuance as at that date amounted to Rs.136,444,828. Out of which, any note had not been documented relating to the manner in which the stock of surgical material costing Rs.105,560,394 had been issued for the use except for the stocks costing Rs.30,884,434 purchased from the local market in the years 2015 and 2016. Accordingly, a proper internal control had not been maintained on the use of surgical material stocks.

(xvi) Even though surgical materials had been received by the Cardiothoracic Operation Theatre as the donations in 114 instances during the period from 08 January 2014 to 15 September 2016, any entry whatsoever had not been made relating to their use despite being included those surgical materials in the Register of Donations.

(xvii) The Surgical Material Stores had purchased 150 units of surgical material named Radial Artery Catheter-kit- Salinger Technique- 3Fr 60mm costing Rs. 292,500 at Rs.1,950 per unit on 15 September 2011 from the local market. Those 150 units of surgical material had been issued to the Cardiothoracic Operation Theatre on 16 September 2011. Out of which 90 units costing Rs.175,500 had expired in June 2016. Those surgical materials had been kept in the stores for a period of 5 years and a proper internal control method had not been adopted for making purchases from the local market based on the requirements. Action had not been taken according to the instructions indicated in the Manual on Management of Drugs before the stock became expired. Further, having made a forged note to the effect that these surgical materials had been issued for the child patients in the registers in which the purchases of the Cardiothoracic Operation Theatre had been recorded, the balance had made zero.

(xviii) Having purchased 25 units of surgical material named Pressure Infusion Bag-500ml by spending Rs.462,500 at Rs.18,500 per unit on 30 September 2013, those had been issued the Cardiothoracic Operation Theatre on 01 October 2013. Out of that, 11 units costing Rs.203,500 had expired in August 2016. These 11 units of surgical materials had been retained in the stores of the Cardiothoracic Operation Theatre for a period of 3 years. It was observed that as action had not been taken to make purchase from the local market depending on the requirement, these stock too had become expired. Further, action in terms of the Manual on Management of Drugs had not been taken before the stock became expired.

(xix) Hundred and sixty units of the surgical material named B. Bran TM Certofix Duo Paed S-408 Pediatrics 4Fx3” (8 cm) Cannula/Needle 21 Gx1.5” Guide wire L=50cm Catheter L=8cm brought by a team of foreign medical practitioners had expired from May 2016 as action had not been taken to use them in suitable manner or distribute to another hospital after finding out the requirements.

(xx) As action had not been taken to make purchases according to the requirement, 28 items of expired surgical materials costing Rs.59,634,569 had been retained in the stores of the Matron of the Cardiothoracic Operation Theatre and the stores of the Perfutionist.

(xxi) It had been revealed at the physical stock verification conducted on 05 December 2016 that, out of the 514 units of surgical material named Romo-Seal/IC Bottle intra costale under water seal granage system-(Pediatric IC Bottle) that will expired in February 2019, hundred and sixty three units costing Rs.228,200 had been damaged so as not to be used.

(xxii) When comparing the amount of Custom tubing pack received by the Cardiothoracic Operation Theatre during the period from the year 2007 to 2016 and the Open Heart Operations performed during the above period, a shortage of 108 units of Custom tubing pack costing Rs.935,911 was revealed.

(xxiii) It was revealed at the physical stock verification carried out on 19 January 2017 that there were 128 units of Cardio Vascular Patch (7.5cm x 5cm x 0.5mm) costing Rs.18,579,200 at the surgical material stores of the Cardiothoracic Operation Theatre as at that date. Another 16 units costing Rs.1,616,206 had been issued to the Cardiothoracic Operation Theatre by the Surgical Material Stores on 17 April 2017. It was revealed at the physical stock verification conducted on 17 May 2017 that only 117 units of that surgical material remained in the stores as at that date. Accordingly, 27 units of the above surgical material should have been used for the operations during the period from 19 January 2017 to 17 May 2017. However, it was established according to the stickers affixed on the bedhead tickets that only 12 units of the above surgical material costing Rs.1,741,802 had been used during the above period and accordingly , 15 units costing Rs.2,177,253 had not been used for the patients.

(xxiv) Hundred and fifty units of Cardio Membrane (PTFE) (12cm x 12 cm x 0.1mm) costing Rs.41,464,800 had been issued to the Cardiothoracic Operation Theatre from the Surgical Material Stores during the period from 27 November 2015 to 31 May 2017. It was observed at a physical stock verification conducted on 31 May 2017 that only 94 units of the above stock remained at the Cardiothoracic Operation Theatre as at that date. Accordingly, 56 units of the above material costing Rs.15,480,192 should have been used for the operations during the above period. Nevertheless, it was observed according to the Patient Registry, records of the Attendants and the Stickers with Batch Nos. relevant to the units used and affixed under the details of the patient that only 11 units costing Rs.3,040,752 had been used for the patients during that period. Accordingly, a shortage of 45 units costing Rs.12,439,440 was observed.

(b) The internal control weaknesses existed in the Surgical Material Stores of the Lady Ridgeway Hospital for Children were as follows.

(i) A Pharmacist with a sound knowledge of the management and administration had not been employed as the Stores Manager of the Surgical Material Stores and a Storekeeper too had not been employed. Instead, registered two medical officers had been employed as the Storekeepers, whereas they had not been assigned duties in writing.

(ii) The number of surgical material items received by the Surgical Material Stores amounted to 4,000 and having divided those items as 2,570 items and 1,430 items at their discretions, those had been administered by the two medical officers who functioned as the Storekeepers. All the activities such as receipt of each item, issuing and documenting had been carried out by the respective officer alone and the duties of these two medical officers had not been subjected to the supervision of a responsible officer in a higher rank. Accordingly, duties had not been assigned so as to ensure a proper internal control regarding the stores activities.

(iii) As the computer network of the Medical Supply Division handles the activities of the stores located throughout the island including this Surgical Material Stores, the officers with the proper computer knowledge should have been attached to these stores. Nevertheless, the two officers who had been attached to the stores lacked sufficient level of knowledge of computers.

(iv) According to the Standing Order No. 03/2015 dated 27 November 2015 issued by the Ministry of Health, Nutrition and Indigenous Medicine on the use of the MSMIS computer system, all the stocks of items existed as at 01 January 2016 should have been verified by a Board of Survey and the stock balances should have been entered in the computer system. Accordingly, a methodology should have been formulated to issue stocks through the computer system. Nevertheless, surgical materials had been issued through the books even by 31 December 2016 deviating from the computer system.

(v) According to the Standing Order No. 03/2015 dated 27 November 2015 issued by the Ministry of Health, Nutrition and Indigenous Medicine on the use of the MSMIS computer system, the copies of the formats of receipt, issuance and returning of surgical material which could be obtained by the computer system had not been filed in a proper order in a manner able to furnish them to the Audit when required.

(vi) The orders of issuing drugs to the hospitals in outside areas had not been written according to a proper order and the order of receipts sent to confirm the acceptance of the goods had not been filed by attaching them to the issuing order. Further, the blank issuing orders had been cancelled without any reason. Accordingly, a proper internal control method had not been established on issuing and receiving orders.

(vii) The surgical material stocks received by the Stores from the Medical Supply Division or purchasing from the local market are directly taken over by the Storekeepers and a methodology had not been established to obtain assurance of a second party on the accuracy of the stocks received. Further, a methodology had not been established to obtain assurance of a second party on the accuracy of the quantity of drugs issued to the hospitals in outside areas. Since a practice of documenting the receipt and issue of stocks deviating from the computer system was further in operation, there was a necessity of obtaining such assurance of a second party.

(viii) A proper methodology had not been established to timely examine the receipt, issuing and documenting the stocks of Surgical Materials Stores, subject them to constant supervision of the Chief Pharmacist and to carry out annual Board of Survey so as to include all surgical materials. The last Board of Survey conducted on 31 December 2015 had not been carried out in a manner include all the surgical material stocks.

(ix) Even though the maintenance of stocks levels is an essential feature in the stock control, it had not been so done. As a result, failure in estimating annual stock requirements, storing unnecessary stocks over a long period and thereby increasing the stores expenses, stocks becoming expired and blocking Government funds unnecessarily in stocks as well as purchasing surgical materials from the local market at high prices under the urgent purchasing in case of shortage of stocks had taken place.

(x) Some instances were revealed that the issuance of surgical materials had been entered in the computer system after a period ranging from two weeks to five months from their issuance. It was observed that approval of a higher ranking officer had not been obtained in such instances. Hence, it was observed that the information obtained from the computer system was not reliable to take decisions on the stocks and it may lead to mislead the officers who take the decisions.

(xi) The entries in the inventories used by the Surgical Material Stores and the data had been constantly altered and new entries had been included among the entries and at the end of the page. As the figures of all the inventories had been constantly changed and deleted after October 2013, there was no credibility of the data and other information contained in those inventories.

(xii) The requisition forms used for the surgical materials by various Divisions of the hospital had been changed by the officers in the Surgical Material Stores without any authority and issuances had been included in those forms by making entries to the effect that the surgical materials not requested by each Division had been requested. Further, it was established that there were some instances where the stocks of surgical materials requested by various Divisions had not been taken over by such Divisions after comparing the quantity of stocks requested by such Divisions. Accordingly, action had been taken to balance the inventories by making forged entries in the surgical material requisition forms.

3.21 Division of Biomedical Engineering Services.

The following matters were observed at the audit test check carried out on the equipment purchased by the Division of Biomedical Engineering Services.

(a) Even though economic benefits can be gained by carrying out the procurement of medical equipment at the same time after estimating total requirement of all the Government hospitals and institutions, opportunities had been made available to purchase medical equipment through the Regional Procurement Committees by making provisions for each hospital. Out of the total provisions amounting to Rs.14,940 million made for the Division of Biomedical Engineering Services during the period of 06 years from 2011 to 2016, provisions of Rs.7,363 million had been made available to the hospitals.

(b) The Division of Biomedical Engineering Services had purchased 04 Phaco Emulsifiers by spending sums totalling Rs.32,732,000 comprising Rs.26,185,600 and Rs.6,546,400 on 12 November 2015 and 10 December 2015 respectively. Although the supplier who had presented the minimum bid of Rs.14,544,000 for the above 04 equipment from among the 04 bidders had satisfied all the technical specifications, his bid had been rejected stating that the service after the sale was very poor. The bid of the suppliers who had submitted the maximum bid of Rs.33,400,000 had been unanimously recommended by the Technical Evaluation Committee stating that he had satisfied all the specifications. Nevertheless, the required technical specifications had not been clearly indicated in the catalogue presented by the selected supplier. Even though the Technical Evaluation Committee had recommended that the technical specifications presented by the bidder were tallied with the requested technical specifications, the basis for making the above recommendation had not been explained to the Audit. Further, no written evidence whatsoever had been furnished to prove that the service of the bidder who had submitted the minimum bid was very poor after the sale. Accordingly, procurement activities had not been carried out with transparency, impartially and cautiously, thus resulting a loss of Rs.18,856,000.

(c) The Division of Biomedical Engineering Services had purchased 05 PHOTOTHERAPHY UNITS at a cost of Rs.11,106,000 on 11 June 2015. The following matters were observed at the audit test check carried out on the above transaction.

(i) Those equipment had been purchased from a supplier who had not presented the annually renewed License to import a registered Device/s obtained from the Cosmetics, Devices and Drugs Authority in terms of Section 2.5 of the Guideline of the above institute together with the bid documents.

(ii) It had been stated in calling for bids that the duration for the supply of requirements should be a period ranging from 4 weeks to 6 weeks. Nevertheless, in presenting bids by the selected supplier the above duration had been indicated as 12 weeks to 16 weeks, but the Technical Evaluation Committee had not drawn attention thereon. As conditions of order had not been issued to the effect that the goods should be supplied within the period indicated in calling for bids, the Secretary to the Ministry had given instructions to the Engineer (Procurement) on 30 January 2015 that 80 per cent of the contract value be paid initially and the relevant fine be recovered in the payment of balance 20 per cent. Nevertheless, irrespective of that instructions, the total amount of Rs.11,106,000 had been paid to the supplier on 11 June 2015 without being recovered the penalty for delays amounting to Rs.777,420 in respect of the delayed period of 07 weeks.

(iii) After the supply of 05 equipment to the Division of Biomedical Engineering Services by the supplier, the relevant Engineer had not examined as to whether such equipment had been received in accordance with the specifications of the requirements. On 21 May 2015, after 4 weeks from the receipt of the equipment, the Director of the Division of Biomedical Engineering Services had informed the relevant Engineer to examine and inform whether those equipment had been duly supplied in accordance with the specifications of requirements. Nevertheless, even after that the relevant Engineer had not examined reported thereon. Accordingly, it could not be established in audit as to whether these equipment had been received in accordance with the specifications of requirements.

(iv) The approval of payments and the certification had been carried out in terms of Financial Regulations 137 and 138 without being properly examined the equipment supplied.

(d) In terms of the approval of the Ministerial Procurement Committee dated 06 November 2015, the Division of Biomedical Engineering Services had purchased 33 C-PAP VENTILATORS by spending sums totalling Rs.27,060,000 at Rs.820,000 per unit. In this transaction, it was observed that the Technical Evaluation Committee had not approved the bid documents and the technical specifications, and the technical specifications had not been categorized as critical and non-critical and the purchasing had been made from the only supplier who had submitted the bids, but not satisfied 07 technical specifications. It was further observed that this procurement had been carried out through an irregular procurement procedure, without transparency and without paying attention on the value as per the price.

(e) The Division of Biomedical Engineering Services had purchased 06 Eye lasers at a cost of Rs.42,369,551 in the year 2015. The following matters were observed at the audit test check carried out on the above matter.

(i) Even though the supplier who had presented the second minimum bid had satisfied all the specifications, his bid had been rejected stating that his service after the sale would be very poor, whereas no written evidence whatsoever had been presented to establish that matter. The Technical Evaluation Committee had recommended the forth minimum bid which had exceeded the value of the second minimum bid by Rs.10,558,726 and as a result of making purchase at the value indicated in that bid, the Government had sustained a loss equivalent to that value.

(ii) In terms of the Guidelines issued to the bidders, demurrages of Rs.123,722 should have been recovered in respect of the delayed period of two days. Out of that, the demurrage of Rs.61,861 applicable to 01 day only had been recovered and the balance demurrage of Rs.61,861 had not been recovered.

(f) In the year 2015, the Division of Biomedical Engineering Services had purchased a Cath Lab at a cost of Rs.82,669,642 which had not satisfied 07 specifications considered as the critical matters in calling for bids for the Cardiology Unit . Further, under the Specification No. 16 d considered as a critical matter, a total cost estimate, a Bill of Quantity (BOQ) and the plans had not been prepared relating to the constructions and fittings. Moreover, specific specifications had not been recognized on the accessories and the fittings existed thereunder. Therefore, it was observed that the bids valued at Rs.10,946,500, Rs.4,900,000 and Rs.3,250,000 had been respectively presented from the minimum bidder for the activities relevant to that specification.

3.22 <u>Cardiology Unit of the National Hospital, Sri Lanka.</u>

The following observations are made in this connection.

(a) There are 2 operating theatres named “C” and “J” in which cardiac surgeries are performed in the National Hospital in Sri Lanka and five cardiac surgeries as Open-heart surgeries, major surgeries, minor surgeries, thoracic surgeries and reopening surgeries are performed in those two theatres. According to the registers of surgeries maintained by those two operating theatres, 511 and 279 cardiac surgeries had been performed in the years 2015 and 2016 respectively. Hundred and eighty three cardiac surgeries had been performed during the period of 08 months from 01 January 2017 to 31 August 2017. As compared with the year 2015, the number of surgeries performed had decreased by 55 per cent in the year 2016. An improvement thereof had not taken place even during the period up to August 2017. The closing down of the theatre "J" for the renovations after 21 April 2016 and failure in taken adequate alternatives thereon had mainly given rise to the above situation.

(b) It was revealed according to the information made available to Audit that at least 2 surgeries can be performed per day and there had been instances that 03 or 04 surgeries had been performed per day depending on the number of beds available in the Intensive Care Unit of the above theatre. Eighty nine cardiac surgeries had been performed in the theatre "J" only in the months of January and February 2016 and 76 of which were open-heart surgeries. However, after closing down of the theatre "J" for the renovations on 21 April 2016, theatre "N" had been used for the surgeries in lieu thereof. Nevertheless, only 33 open-heart surgeries had been performed therein during the months of November and December 2016. The surgeries performed per day had been limited to 01 during the period up to August 2017. Accordingly, closing down of the theatre "J" for the renovations had mainly contributed to decrease the number of surgeries by 55 per cent and as such plans should have been prepared and implemented to complete the renovation activities as expeditiously as possible. Nevertheless, action had not been taken accordingly and it could be observed by the following matters.

(i) Without being complied with the provisions of the Government Procurement Guidelines, the Central Engineering Consultancy Bureau had been selected a Consultant and that institution had prepared the engineering estimate valued at Rs.69.88 million inclusive of tax. The contract for the renovation had been awarded to the State Development and Construction Corporation on 02 December 2015. Nevertheless, neither that engineering estimate had been examined by the Technical Evaluation Committee nor the approval of the Procurement Committee had been obtained for the award of the contract.

(ii) Although the Cabinet had decided to award this contract to the Central Engineering Consultancy Bureau at Rs.69.88 million on 14 March 2016, a period of 03 months had elapsed by then from the award of the contract.

(iii) Although there were evidence that the relevant place had been handed over to the contractor for renovations on 21 April 2016, requests had been made to the Cabinet on 21 October 2016 to change the scope of the renovation and to increase the estimate of Rs.69.88 million up to Rs.186.32 million by 166 per cent. The Cabinet approval thereon had been received on 16 November 2016. Even by 30 September 2017, action had not been taken to get the variance of cost of Rs.116.44 million from the original estimate examined by the Technical Evaluation Committee, to obtain the approval of the relevant Procurement Committee therefor and to submit the new charges relating to the cost estimate to the Standing Technical Evaluation Committee and obtain approval thereon in terms of the recommendations of the Cabinet.

(iv) An agreement had not been entered into with the Central Engineering Consultancy Bureau even by 30 September 2017 and a consensus had not been reached on a scheduled date for the completion of the works. It had been failed to get the renovations completed though a period of 01 year and 05 months had elapsed by 30 September 2017, the date of audit from 21 April

2016. It was revealed at the physical audit test check that the repairs of the air-conditioned system had further remained. Further, deficiencies such as detaching the paints of the Section “A” of the theatre in which the renovation had been completed, leaking water from the roof, percolating water on the outside walls of the two rooms in the Section “B” of the theatre, not properly connecting a water flowing tube to the ground had been revealed.

(c) The Consultants of this Unit had informed the Director of the hospital in several instances that the theatre named “N” used instead of the theatre “J” was not suitable to perform cardiac surgeries and he had been further informed about the difficulties found due to closing down of the theatre. It was observed that the solutions thereon had not been given even by 30 September 2017, the date of audit.

(d) According to the information received by the Audit, it was observed that the building in which the Wards Nos. 25 and 26 of the Cardiothoracic Unit were maintained and built in the year 1924 remained extremely dilapidated condition.

(e) In terms of the General Circular No.01/16/2001 dated 31 August 2001 of the Director General of Health Services relating to the assignment of duties, the performance of echocardiography test is a part of the duties of the Electrocardiogram Technician, whereas it was revealed that the above test were being performed by the medical officers attached to that unit instead of the relevant technicians. It was observed that the above situation had given rise to limit the time of the medical officers to refer to the patients.

(f) Although requests had been made to the Division of Biomedical Engineering Services and the Surgical Material Store from time to time in the years 2015 and 2016 to supply a Worming Machine & External Worming Blanket, the estimated cost of which amounted to Rs.248,000, a Side Lamp, the estimated cost of which amounted to Rs.148,500, a Defibrillator, the estimated cost of which amounted to Rs.600,000 for the Theatre “J”, 02 Heart-Lung Machines for the Cardiothoracic Unit, 02 Defibrillators for the Electrocardiogram Technician Division 4 Syringer Pumps, the estimated cost of which amounted to Rs.200,000 for the Catheterization Laboratory II, action had not been taken to supply those equipment even by 30 September 2017. Further, lack of 03 Echo machines, 03 Holter Recorders, 02 Defibrillators in the Electrocardiogram Technician Unit and 08 ECG Cables, 01 Ambulatory Blood Pressure Monitoring Unit and a computer in the Catheter Theatre was observed. The failure in the fulfilment of these shortcomings had given rise to cause delays of the treatment services and to increase the number of patient of the waiting list annually.

(g) The number of patients annually registered for the 17 clinics conducted by the Cardiothoracic Unit had gradually increased at higher percentage. It was observed that the facilities provided for the patients remained at a minimal level and the patients had to remained in queues for a long time without any shelter to cover against rain and sun in order to obtain the prescribed medicines.

3.23 Environment Audit

Information was called for from 38 hospitals relating to the waste management and out of which only 23 hospitals had furnished information to Audit. The following observations are made according to that information.

(a) The sewerage systems operated in 02 hospitals were not properly functioning and those had not been maintained and repaired in time. A specific method had not been followed with regard to the use of chemicals applied to purify the waste water in 13 hospitals. A specifically recognized post was not available to supervise the activities of the sewerage systems of 10 hospitals and a specific methodology had not been followed in carrying out the quality test on the purified water in 13 hospitals. The Environmental Protection Permit for emission of waste issued in terms of Section 23 of the National Environment Act, No.47 of 1980, had not been obtained by 08 hospitals. Water samples of 06 hospitals had not been tested by a recognized institution to ascertain whether it is suitable to release such water to the environment. Further, the information such as the institution to which water the samples had been handed over to test in 02 hospitals, the date of issuing the samples, conclusion of the report and the date of the report had not been made available to audit.

(b) The expired drugs of 02 hospitals had been buried and burnt without being taken action to hand over the above drugs to the Medical Supply Division for a proper disposal or to bury in a pit by mixing them with the cement and lime. The methodology adopted to dispose of the expired drugs in another 12 hospitals had not been furnished to audit.

3.24 Import of Fake and Substandard Cosmetic Products

The National Medicines Regulatory Authority Act, No.5 of 2015 had been enacted with effect from 01 July 2015 by abolishing the Cosmetics Devices and Drugs Act, No.27 of 1980. The provisions cited in the abolished Act relating to the manufacture and import of plain cosmetics had not been included in the new Act. Cosmetic products, the quantity and the value of which could not be ascertained had been imported with effect from 01 July 2015. Nevertheless, a proper monitoring had not been carried out on those importations even by 30 November 2017, the date of audit due to the unavailability of legal provisions as mentioned above. Accordingly, the Management had not paid proper attention in respect of import of fake and substandard cosmetic products and the possibility of serious health intimidation in their long-term use.

3.25 Management Weaknesses

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

(a) The unclaimed and unassessed gold articles, wrist watches, money and other equipment of the patients which had been taken in the custody of the Anuradhapura Teaching Hospital at times of their admission to the hospital during a period of 48 years from the year 1962 to 2010 had been retained in a safe of the hospital. Action had not been taken to assess and auction the above property of the patients retained over 48 years and to credit that income to the State Revenue.

(b) Although it is essential to store the packets of blood separately in a manner bale to identify them according to each blood group conveniently, in the refrigerators reserved for storing the blood packets of the AB Rh positive group in the Anuradhapura Teaching Hospital, the blood packets belonging to the O Positive group had been stored together with the packets of blood belonging to the aforesaid group.

Although a suitable method should have been introduced and implemented by joining hands with the other regional hospitals or blood transfusion centres to ensure the maximum use of blood donated by the independent donors and the mediation of the Government and Non-Governmental Institutions without being allowed them to become expired, the Blood Bank of Anuradhapura Teaching Hospital had not taken action accordingly. As such, blood belonging to extremely rare groups had become expired. It was established in the audit test check that 201 packets of bloods exceeding 60 liters had been discarded due to the expiration.

(c) Although an Infection Control Unit had been established in Kandy Hoapital with the objective of prevention of spreading diseases, its functions had not been specifically mentioned. The stores belonging to that Unit had been maintained insecurely in an irregular manner and the duties of the stores had been assigned to a Nursing Officer in the Special Grade instead of an officer in the Government Management Service. Even though a Committee had been appointed to inquire into the incident of making attempt to load a part of the stock of aprons stored in this stores to a lorry of the supplier by the Nursing Officer on 01 February 2017 without permission and a preliminary inquiry report had been submitted to the Secretary to the Ministry of Health on 14 March 2017, appropriate disciplinary action had not been taken by completing the inquiries even by 30 November 2017.

(d) The Chief Accountant had been entrusted with the main responsibility of purchasing and storing the equipment of the Kandy Hospital. In addition, he had been appointed as a member of the Procurement Committee, Authorized Officer for the relevant payments and the first signer of the cheques issued. Further, an officer of the Accounts Division that remained under the direct supervision of the Accountant had been appointed as the second signer of the cheques.

(e) Since the medical officers who had proceeded abroad on full pay leave for postgraduate activities and those who had proceeded abroad on no pay leave for the employments had not reported for the service or not performed duties to the Government during the compulsory period of service, a sum of Rs.62.71 million remained recoverable from 139 medical officers as at 31 December 2016 according to the relevant agreements. Out of that a sum of Rs.22.57 million could not be recovered due to failure in ascertaining the present addresses of the medical officers while Rs.4.35 million could not be recovered due to under computation. Due to the management’s inefficiencies such as not maintaining a data base in an updated manner on the medical officers who proceed abroad and not taking expeditious steps on the medical officers who had vacated the service, it had not been possible to recover the above money.

3.26 Transactions of Contentious Nature

For the iodine deficiency diseases prevention programme conducted by the Environmental and Professional Health Division of the Ministry of Health, 850 kilograms of Potassium iodate used for the salt iodization valued at Rs.5.95 million had been received as a donation of the Government of Japan. Without being distributed that Potassium iodate among the iodine mixed salt manufacturers island wide, that stock had been handed over to the Ceylon Salt Ltd on 27 February 2015. The Secretary to the Ministry of Health had informed the Audit by the letter dated 20 July 2016 that the General Manager of the Ceylon Salt Ltd. had agreed to credit the value of that Potassium iodate stock to the Health Development Fund. Even though a period of 02 years and 08 months had elapsed by 02 November 2017 from handing over of the stock of Potassium iodate to the Ceylon Salt Ltd., that money had not been recovered from the Ceylon Salt Ltd.

3.27 Unresolved Audit Paragraphs

Reference to the audit paragraphs relating to the Ministry included in the Reports of the Auditor General on which corrections had not been made to the shortcomings pointed out, is given below.

Reference to the Auditor General's Report		Referred Item
Year	Paragraph No.	
2007	6.6 (e) xiii	Although the party responsible for the irregularity of Rs.10 million caused in the transport of drugs had been identified, the loss had not been recovered even by 30 October 2017.

3:28 Human Resources Management

3.28.1 Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	14,987	12,678	2,309	-
(ii)	Tertiary Level	34,395	26,682	7,728	15
(iii)	Secondary Level	5,549	3,883	1,667	01
(iv)	Primary Level	30,677	23,503	7,220	46
(v)	Others (Casual/ Temporary/ Contract Basis)	-	2,394		2,394
	Total	**85,608**	**69,140**	**18,924**	**2,456**

The following observations are made.

(a) Having attached 3,728 officers and employees exceeding the approved cadre of each hospital and institution, salaries had been paid. Out of that, the excess of Consultants in 16 hospitals and 07 institutions in the vicinity of towns amounted to 129 and the above excess ranged from 01 to 27. The shortage of the Consultants in another 21 hospitals and 13 institutions stood at 155.

(b) Similarly, the number of vacancies of the medical officers in 60 hospitals and institutions amounted to 1,914 and out of that, the number of vacancies of the medical officers in the hospitals in rural districts such as Anuradhapura, Polonnaruwa and Jaffna ranged from 16 to 141. Nevertheless, there was an excess of 119 medical officers in another 18 hospitals and institutions of which the excess of the medical officers in the hospitals in Colombo, Kandy and Kurunegala districts ranged from 08 to 28.

(c) Although 36 medical officers had been approved for various administrative affairs of the Ministry, 69 medical officers had been deployed therefor. Accordingly, 33 excess medical officers had been attached to various Divisions of the Ministry without being assigned adequate duties and 10 of the above officers drew salaries from various hospitals as well.

(d) Due to the shortage of the medical officers, 15 Preliminary Care Units and 04 regional hospitals in 10 districts had been closed down.

(e) The Senior Level vacancies included 15 Accountants, 14 Biomedical Engineers, 78 Dental Surgeons and 13 Drug Analysts.

(f) For 07 posts not included in the approved cadre, 62 employees and 2,394 employees had been recruited on permanent and contract basis respectively.

(g) It was reported that 09 Nursing Officers and 13 Junior Health Employees of the Anuradhapura Teaching Hospital who had been temporarily attached to another hospitals on various reasons for a period of 03 months during the period from the year 2014 to 31 December 2016 had continuously reported for the service in the same hospitals and the Anuradhapura Teaching Hospital had paid Rs.9,663,982 as their salaries and allowances.

3.28.2 <u>Acting Beyond the Authority</u>

In terms of Article 57 of the Constitution, the power of appointment, promotion, transfer, disciplinary control of Public Officers had been vested in the Heads of the Departments by the Extraordinary Gazette Nos.1295/26 dated 02 July 2003 and 1733/52 dated 25 November 2011 of the Democratic Socialist Republic of Sri Lanka relating to the delegation of powers of the Public Service Commission. According to the Letter No. PSC/EST/7/5/18/2013 dated 24 October 2013 of the Public Service Commission, the Secretary to the Ministry of Health had been stated as the Head of the Department. It was observed in an audit test check that notwithstanding the above matter, several officers including the Director General of Health Services had effected appointments, transfers, promotions, disciplinary control and reinstatements in 09 instances contrary to the provisions by surpassing their powers.