

## **Report of the Auditor General on Head 111 – Ministry of Health, Nutrition and Indigenous Medicine - Year 2017**

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The Appropriation Account and the Reconciliation Statements of the Head and subject number in the first schedule and third schedule of the Amended Appropriation Act No. 24 of 2016 as amended by the Appropriation (Amended) Act No. 32 of 2017 had been presented to the audit by Ministry of Health, Nutrition and Indigenous Medicine. The financial and physical performance indicated from that account and reconciliation statement was audited in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Responsibility of the Chief Accounting Officer for the Financial Management and Accountability**

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As per Financial Regulation 124 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka, the Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of the supervision of all the financial operations of government. The Chief Financial Officers have been appointed for performing those duties as per Financial Regulation 124 (2) . In accordance with the Financial Regulation 125(1) (a), the Head of Department is the Accounting Officer in respect of all the financial transactions of his Department and Revenue Accounting Officer is appointed by the Treasury. This responsibility includes the maintenance of accounts and the Reconciliation Statements that presented by performing own duties within the limits imposed by the Parliament 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, Government Financial regulations and Administrative Regulations, preparation and planning, implementation and maintenance of internal controls in relation to present fairly.

### **1.3 Scope of Audit**

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The audit of planning in respect of financial and physical performance, management of public income, public expenditure, human and physical resources, using of internal control provisions, compliance with laws, rules and regulations and maintenance of books, documents, reports and reconciliation statements by updating, preparation and presentation of accounts timely, issuing performance reports based on performance indicators to the related parties of the Head 111 – Ministry of Health, Nutrition and Indigenous Medicine for the year ended 31 December 2017 was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review had been issued to the Secretary to the Ministry on 27 September 2018. The audit observations, comments and findings were based on a review of the plans, accounts, reconciliations and performance reports presented to audit and substantive tests of samples of transactions. That review and the scope and extent of tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me.

## 1.4 Audit Observation

Audit observations revealed at the audit carried out of Ministry of Health, Nutrition and Indigenous Medicine for the year ended 31 December 2017 had been stated in detail in the Management Audit Report mentioned in the above 1.3 Paragraph. Material and significant audit observations had been mentioned in the Paragraph 2.1 to Paragraph 2.22 of this report out of those observations. Except for the audit observations that revealed when performing the provisions of Financial Regulation 127 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka so as to confirm the sufficiency of financial administration stated in the following note by summarizing, it was observed that the own accountability as the Chief Financial Officer had been accomplished in satisfactorily.

<b>Accountability of Chief Accounting Officer as per Financial Regulation 127</b>	<b>Non-compliance of those provisions by Chief Accounting Officer</b>	<b>Paragraph Reference to the report included the observation</b>
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Financial Regulations -----		
127 (1) (a)	All financial works should be planned so as to confirm that the works are in correctness and financial propriety.	1. Not possible to identify that the Action Plan has been followed due to non-preparation of Progress Reports. 2.2 (a) 2. Non- preparation of the budget estimates in realistic manner 2.13 (a) 3. Non-maintenance of registers and books. 2.18
127 (1) (b)	A system should be provided for adequate controls over expenditure and collection of public revenue	1. Improper transactions 2.7 2. Unresolved audit paragraphs 2.10 3. Management weaknesses 2.11 4. Non- compliances 2.19 5. Deficiencies in Human Resource Management 2.22
127 (2)	Existing items of expenditure, as well as proposals for new or increased expenditure in the	1. Functions contrary to the main functions 2.2 (b) 2. Desired output level that could not be confirmed 2.2 (c)

	departments under own control, are closely examined in the Ministry from the points of view of economy and efficiency.	<ul style="list-style-type: none"> <li>3. Projects abandoned without completing</li> <li>4. Delays in commencement of projects</li> <li>5. Delays in execution of projects</li> <li>6. Commencement of projects after a delay period</li> <li>7. Not achieving of performance of the Foreign Funded Projects.</li> <li>8. Deficiencies in implementing Procurement Process</li> <li>9. Recession in the value and quality of assets</li> </ul>	<ul style="list-style-type: none"> <li>2.2 (d)</li> <li>2.2 (e)</li> <li>2.2 (f)</li> <li>2.2 (g)</li> <li>2.3.1</li> <li>2.4.1</li> <li>2.5 (f)</li> </ul>
127 (3)	A way of all cases of doubt or difficulty is referred to him so that he may bring his own administrative experience and judgement to bear on them.	<ul style="list-style-type: none"> <li>1. Weaknesses in vehicle utilization</li> <li>2. Existing in Idle and underutilized Assets</li> <li>3. Vehicle utilization under Financing and operating lease</li> <li>4. Office maintenance expenses</li> <li>5. Weaknesses in execution of services to the public</li> </ul>	<ul style="list-style-type: none"> <li>2.5 (a)</li> <li>2.5 (g)</li> <li>2.5(c)</li> <li>2.5(d)</li> </ul>
127 (4)	Appropriation Accounts are duly rendered by each of his Accounting Officers, and examined at the Ministry before he signs them; and that important differences in the Estimates and the actual expenditure are critically investigated by him.	<ul style="list-style-type: none"> <li>1. Entering into commitments beyond the annual budget limit.</li> <li>2. Unsettled Liabilities</li> <li>3. Deficiencies in Imprest Account</li> <li>4. Deficiencies in General Deposit Account</li> <li>5. Deficiencies in operating of bank accounts</li> </ul>	<ul style="list-style-type: none"> <li>2.12</li> <li>2.6 (b)</li> <li>2.6 (a)</li> <li>2.15</li> <li>2.16</li> <li>2.17</li> </ul>
127 (5)	The important variations between Departmental Estimates and expenditure receive critical examination at the Ministry	<ul style="list-style-type: none"> <li>1. Non-utilization of provisions made available</li> <li>2. Over-provisions made available</li> <li>3. Deficiencies in utilization of provisions obtained by Supplementary Estimates</li> </ul>	<ul style="list-style-type: none"> <li>2.13.(b) (i)</li> <li>2.13.(b) (ii)</li> <li>2.13.(b) (iii)</li> </ul>

127 (6)	The collection of Revenue or other Government dues for which Accounting Officers are responsible is closely watched and examined by the Ministry.	1. Deficiencies in Advance Account to Public Officers	2.14
127 (7)	The procedure laid down in Financial Regulations 103 to 108 is followed by the Accounting Officers, in case of losses caused to Government by the delays, negligence, fault or fraud on the part of officers/employees and surcharges are imposed on the officers/ employees responsible for such losses, in terms of Financial Regulations. 156 (1) . It is also a duty of the Chief Accounting Officer to appear before the Committee on Public Accounts and to assist it along with his Accounting Officer in explaining and justifying the accounts of the departments for which he is responsible.	1. Non- receiving Revenue to be received to the Government 2. Financial irregularity transactions 3. Losses and damages	2.5(e) 2.8 2.9

**2. Material and Significant Audit Observations**

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**2.1 Performance**

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**Planning**

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The Action Plan for the year 2017 had been prepared in terms of Public Finance Circular No. 01/ 2014 of 17 February 2014. Accordingly, 973 key functions that had to be fulfilled by the Ministry had remained in the year under review and the following shortcomings were observed

regarding the Action Plan that had been prepared for the expected results from the Ministry, 23 Statutory Institutions established under that and 01 Fund.

- (a) Although the Action Plan for the year under review should be prepared before the commencement of the year, the Action Plan for the year under review had been prepared after six months elapsed or on 22 June 2017.
- (b) Since the 973 activities stated in the Action Plan had not been classified under 20 key functions stated in above 2.1, it was impossible to identify the plans exist to achieve those key functions.
- (c) Even though the Annual Performance Requirements Plan (Imprest Requirement Plan) had been prepared, it had not been included in to the Action Plan.

## 2.2 Non - execution of Activities

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The following observations are made.

### (a) Not carrying out the activities included in the Action Plan

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- (i) Even though 973 activities should be achieved by the Ministry as per the Action Plan, since the progress reports were not prepared, it could not be able to identify the number of activities that had been fulfilled and had not been fulfilled out of those 973 activities.
- (ii) Although it had been expected to achieve the output according to the Annual Action Plan, the capital budgetary provisions amounted to Rs. 18,094 million that had been made by the Annual Budget Estimate had ineffectual due to the reasons such as non-receiving the imprest and not achieving the procurements as planned.

### (b) Activities in contrary to Main Objectives

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The Ministry had spent a sum of Rs. 48.7 million during the four years from the year 2014 to the year under review for all the recurrent and capital expenditure of the Bhadravathi National Bhikku's Health Care Centre at Galaha where the provisions were not made available under the Annual Budget Estimate and not subjected to scope of the Ministry. Even though the Secretary to the Ministry should have to perform to restructure this institution as an established legitimate institution as per the Cabinet Decision dated 25 October 2014, it had not performed the restructuring activities even by the 15 August 2018.

### (c) Expected output level not achieved

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Even though out of the provisions made available amounted to Rs. 45,594 million as per the Annual Action Plan for 197 different capital activities an amount of Rs. 27,500 million had

been utilized , because of non- preparation of Progress Reports including physical performance of such activities, it was impossible to verify whether the Performance had been achieved as expected.

**(d) Abandonment of Projects without Completion**  
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The contract for the construction of a Pre-fabricated Store at Welisara area for the Medical Supplies Division at the estimated cost of Rs. 199 million had been awarded to a contract value of Rs. 241 million on 22 March 2017. The land had been selected without a proper feasibility study and because it had been identified subsequently that an additional cost of Rs. 390 million had to be spent to arrange the land to convert to a suitable site to construct a building , the construction was abandoned and a sum of Rs. 6.7 million had been spent a for the setting up of a fence around the ground by that time.

**(e) Delays in Commencement of Projects**  
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It was observed that the Ministry had not commenced the construction of accidents and emergency treatment units of 05 hospitals and the reasons such as changing of the Project Plan from time to time, spend a long period for the procurement process and changing the proposed construction site had affected for that.

**(f) Delays in Implementation of Projects**  
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Delays had been occurred in 14 construction projects due to the work site had not been handed over immediately after awarding of the contract by the Ministry , make revisions in construction plans after commencement of construction activities , the payments had not been made within 28 days for the bills of the contractor, removal of the issues such as drainage systems, water supply systems, power supply systems, internal roads, medical gas systems and clinical waste collection centers after the commencement of construction and the weaknesses of project feasibility assessments.

**(g) Commencement of Projects in Delay**  
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Details of several projects commenced in delay that had been revealed during the audit test checks are given below.

<b>Project</b>	<b>Contract Value</b>	<b>Date to be Commenced</b>	<b>Date Commenced</b>	<b>Delayed Period</b>
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	<b>Rs.</b>			
Stage 1 of Accidents and Emergency Treatment Unit of Jaffna Teaching Hospital	586,280,164.73	2015/12/16	2016/03/23	96 Days
Construction of Immature Baby Care Unit of the De Zoysa Womens' Hospital	325,406,764.69	2015/08/25	2016/01/19	146 Days
Construction of first and second storied buildings of Jaffna Nurses Quarters	111,216,333.27	2016/07/19	2016/09/05	47 Days

### **2.3 Local and Foreign Aid Projects Implemented**

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The provisions had been made available by the Ministry during the year under review for 58 Local Funded Projects totalled to Rs. 18,216 million and provisions amounting to Rs. 14,746 million for 22 Foreign Funded Projects and Rs. 19,207 million had been utilized as Rs. 12,202 million and Rs. 7,005 million respectively out of that. Accordingly, a sum of Rs. 13,705 million or 42 per cent from the provisions that made available had been saved.

#### **2.3.1 Foreign Aid Projects**

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The following observations are made in this regard.

##### **(a) Performance of Foreign Aid Projects**

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The Second Health Sector Development Project had been implemented under World Bank loan assistance to provide financial assistance to implement the National Health Development Plan during the period from the year 2013 to the year 2017. As per the Financing Agreement of the Project, the functions of the activities of the Project at the National and Provincial Levels were vested to the Ministry and the Provincial Councils and the Ministries of Local Governance respectively. The expected objective of the Project was to upgrade the standards of public health performance to be able to create more positive responses to challenges in respect of malnutrition and non-infectious diseases. The Project activities consisted of two components and the Project was scheduled to commence

on 01 July 2013 and to be completed by 30 September 2018. According to the Financing Agreement, the estimated total cost of the Project was Rs. 25,270 million and by the end of the year a sum of Rs.4,436.62 million had been incurred. The following observations are made in this regard.

- (i) It had been planned to construct new Emergency Treatment Units in 14 hospitals and to improve Accidents and Emergency Treatment Service Units in another 14 hospitals in order to improvement of the accidents and emergency treatment units in Sri Lanka . Accordingly, even though the plans had been made to construct emergency service units in Kalutara, Polonnaruwa, Jaffna and Kalmunei hospitals by 31 December 2017 under that , none of the constructions had been completed on the due date whereas the estimated cost of the construction was Rs. 1,900.07 million.
- (ii) It had been entered into an agreement with a private company to implement a software system with a cost of Rs. 4.7 million for the management of the vehicle fleet under the Ministry on 18 December 2014. The contract agreement had been signed by the Director (Transport) by taking actions beyond the powers of financial control. Even though all the activities of introducing of software system had to be completed by 30 June 2016, those activities had not been completed even by 30 June 2018 and the contract period had also not been extended after 31 December 2016. In terms of the Government Procurement Guidelines 5.4.10 a sum of Rs. 1.88 million had been paid to the relevant Company by 31 December 2016 without obtaining Performance Security Bond.
- (iii) Two Linear Accelerator Machines had been purchased under the Project Provisions on 02 December 2015 for Rs. 476 million. Due to the delays in the construction of concrete bunkers for the related machines to be installed, those machines had been in idle without installing in the Jaffna and Batticaloa hospitals around 02 years and 06 months period by 30 May 2018.
- (iv) Even though the overall provision made available for the new innovations during the 05 years project period was Rs. 346 million as per the Project Corporate Plan, a sum of Rs. 399 million had been approved for 34 new innovations research proposals by 31 December 2017. Although the new innovations research projects should be completed at 31 March 2018, the final reports relating to only three final research proposals had been submitted out of 34 research proposals by 31 December 2017 . The reasons such as several new innovations were carried out by a same person and execution of research projects were being carried out by the Review Committee Members who had appointed by the Secretary of the Ministry had affected not functioning the Research projects in an efficient manner.



- (v) The provision amounted to Rs. 672.74 million had been made available for building local and foreign capacities in terms of Project Corporate Plan and a sum of Rs. 48 million for the local capacity building and a sum of Rs. 371 million for foreign capacity building had been incurred by the end of the year under review. Thus, the progress as at the end of the year under review had been only 62 per cent.
- (vi) It had been planned to train 1,080 officers for preparation of bidding documents and bid evaluation during the project period, as per Terms of Reference under local capacity building. However, due to delays in the planning of training activities, only 86 officers had completed their trainings by 31 December 2017.
- (vii) Even though there had been plans to train 2,100 officers under online short courses during the project period, due to the delays in planning of the courses, it had been impossible to commence the courses even by the 31 December 2017.
- (viii) Advances received by an officer should be settled within 10 days or if the work is done before that immediately after completion of the purpose it is granted in terms of the Public Finance Circular No. 03/ 2015 dated 14 July 2015. However, the ad-hoc sub imprests totalled to Rs. 6 million provided by the Project for various activities had been settled after a delay ranging from 16 days to 348 days.
- (ix) As per the Project Plan approved by the Department of National Planning, the total provision made available for the first and second components for the financial year 2017 was Rs. 3,636 million and the overall net provision received from the Treasury was Rs 3,100 million. However, the amount incurred for two components was Rs. 1,621 million or only 52 per cent of the net provisions in the year 2017. Due not having proper planning and functioned according to a time frame, the projects estimated value of Rs. 32 million could not be able to fulfill as planned by the 05 Divisions of the Ministry in the year under review.

**(b) Abandonment of certain Industries included in Foreign Funded Projects**

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A sum of Saudi Riyal 75 million or approximately Rs. 3,000 million loan had been obtained in the year 2008 from the Saudi Development Fund for the construction of Epilepsy Hospital at the National Hospital in Sri Lanka and Epilepsy Centers in the 09 provinces. As per the Loan Agreement, all the funds approved for the construction of Epilepsy Health Centers had been spent on construction and equipment of the Epilepsy Hospital without obtaining any approval. A sum of Saudi Riyal 45 million or approximately Rs. 1,690.65 million loan had been obtained from the Saudi Development Fund for the construction of the 09 Epilepsy Health Centers again on 30 October 2015. However, that entire loan had also been incurred for the Epilepsy Hospital and even commencement of the construction of 09 Epilepsy Health Centers had not been carried out.

### 2.3.2 Local Funded Projects

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The following observations are made in this regard.

#### **(a) Construction of the Out Patients Department and Clinical Building of the Colombo National Eye Hospital**

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The first stage of the improvement of the building had been awarded to a private company with a tax-free contract amounting to Rs. 120.6 million on 11 February 2013 and the works of that had been completed on 14 August 2014 or after one year and two months of delay. The second stage of that had been awarded to an another private company with a tax-free contract value amounting to Rs. 144.2 million on 04 September 2014. The following observations are made in this regard.

- (i) Even though the adequate provisions had been made available for the years 2014 and 2015, because of the matters such as not functioning as per an Action Plan and not performing with a proper supervision and failure to obtain electricity due to not having the approval for the plan of the building from the Colombo Municipal Council, the constructions had not been completed even by 09 October 2015 as per the Second Stage Contract Agreement.
- (ii) The contract period had been extended by 399 days on 05 occasions up to 10 November 2016 and even though the period of contract had expired on 10 November 2016 the works of the Project had not been completed even by the 31 August 2017 and the delayed period was of 9 months 21 days.
- (iii) Because of the extension of the contract period after 09 October 2015 an additional amount of Rs. 2,905,550 had to be paid to the Contractor due to the increase of the prices.
- (iv) Even though a sum of Rs. 2,551,811 had been paid to the Central Engineering Consultancy Bureau which had been considered as the advisory body of the Project as consultancy fees during the year 2014 to the year 2015, the approval of the Cabinet of Ministers had not been received to select the Bureau as the advisory body and the procedure for procurement was also had not been followed to select the consultancy firm.
- (v) It was revealed at the physical examination conducted on 31 August 2017 that the power supply system, electrical equipment, air conditioning system and electric elevators etc. could not be checked as the electricity was not provided to the building that had been completed the constructions.
- (vi) Although the Performance Security Bond amounted to Rs. 7,214,151 had expired by 14 June 2017, no action whatsoever had been taken to renew that.

**(b) Construction of 07 Storied Millennium Ward Complex at the Colombo South Teaching Hospital, Kalubowila**

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- (i) The Central Engineering Consultancy Bureau had performed as the consultant institution and although it had been functioned to build an another additional floor whilst being constructed the planned 07 floors, no action whatsoever had been taken to prepare an amended engineering estimate or to obtain the approval of the relevant Procurement Committee.
- (ii) The total allocation made available by the Local Funds for the Project from the year 2007 to the year 2017 was Rs. 854.04 million and since the work had not been completed by 31 December 2017, the delayed period was 09 years. The financial and physical performance was only Rs. 565.28 million and 66 per cent respectively as reported by 31 December 2017.
- (iii) Since the works of the contract had not been completed properly, although the works of the contractor had been terminated on 06 March 2014 properly, actions had not been taken to recover the advances amounted to Rs. 51 million and the Performance Security Bond had expired by that, it could not be able to convert that to money.
- (iv) Even though an interference of the consultancy firm in respect of the contract had not occurred during the period from the 16 March 2010 to the 31 December 2012, a sum of Rs.14 million had been paid as consultancy fees for that period as well. Although it had been informed to audit as actions would be taken to recover that Rs. 14 million from the consultancy fees to be paid in future, a sum of Rs. 27 million had been paid as consultancy fees in the year 2016 without recovering this amount.
- (v) The equipment cost at Rs. 43 million had been remained in idle on the work site since 02 years by 31 December 2017 and the air condition machines, washing machines and fire extinguishers that were purchased by the contractor for the construction of the building were outdated and the warranty period also had expired. Other materials on the site were also subjected to being destroyed, and it was observed that the building could be a threat to the safety of the hospital due to abandonment in a desolate condition.
- (vi) The contract had been awarded to the State Engineering Corporation of Sri Lanka amounting to a contract value of Rs. 743 million on 31 May 2017 based on the recommendation of the Standard Procurement Committee appointed by the Cabinet of Ministers by obtaining the approval of the Cabinet of Ministers for the completion of the construction work that was interrupted thereof. A sum of Rs. 743 million which was almost twice of the original estimate had to be incurred for the remained construction works of the building expected to be completed in the year 2008 by Rs. 398 million.

### **(C) Construction of a New Building Complex for the Ministry**

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As per the Decision of the Cabinet of Ministers dated 19 October 2014 taken subjected to the approval of the Standard Technological Evaluation Committee, of the Ministry of Housing and Common Amenities, the Project of construction of a new building complex for the Ministry at taxable contract value of Rs. 3,896 million based on Design and Built had been awarded to the Central Engineering Consultancy Bureau on 29 October 2014. The following observations are made in this regard.

- (i) The approval of the Municipal Council had not been obtained before the commencement of the construction work and a feasibility study for the Project also had not been carried out.
- (ii) Even though the total provision had to be made available for the years 2014, 2015 and 2016 for the completion of the work by 29 October 2016 the date expected to be completed as per the Contract Award Letter was Rs. 3,896 million, it was observed that the actions had not been taken to fulfill the expected targets according to a proper plans due to the total provision made available for this project in 04 years from the year 2014 to the year 2017 was only Rs. 1432.6 million and the actual expenditure was only Rs. 900.2 million even by 31 December 2017. Only the diving of dredging equipment had only been done for the building by 31 December 2017 and the delayed period of the project was 1 year and 02 months as at the date .
- (iii) The cracks and splits of the walls had occurred in four wards and at the labour rooms, the baby intensive care unit and the operating theater of the Castle Street Hospital located adjacent thereon as a result of the construction of this building. Although the reconstruction activities had been done only in several wards out of that, it was observed that these places also had again cracked. No information was revealed that there was an agreement with the contractor to reimburse the damage caused in this regard.
- (iv) Although this new building complex was planned to be constructed due to inadequate space available at the Suwasiripaya Building where the Ministry is being functioned, due to the non-completion of the Project within the expected time period, it was observed that the building that had been obtained on rent from 01 of May 2015 at a non- taxable amount of Rs. 108 million per annum had to be obtained on rent furthermore.

### **2.4 Obtaining Supplies and Services through the Procurement Process**

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Out of the provisions made available amounted to Rs. 75,119.69 million pertaining to the following expenditure items by the provisions of Annual Budgetary Estimates and Supplementary Budget Estimate Allocations approved by Parliament for the year 2017, the provisions amounted to Rs. 55,842.4 million had been utilized by the Ministry by performing in accordance with the Government Procurement Guidelines, to obtain supplies and services. Accordingly, a sum of Rs. 19,277.29 million or 25.66 per cent provisions out of the provisions made available had been saved.

#### **2.4.1 Implementation of the procurement process**

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The following observations are made.

##### **(a) Construction of Accident Ward, Operation Theater and Intensive Care Unit at Gampola Base Hospital**

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The following observations are made.

- (i) Although the procurement activities of this construction which was at a total cost estimate of Rs.371 million had to be completed within a minimum of three weeks and maximum of 12 weeks period in terms of the Paragraph 4.2.3 of the Government Procurement Manual it had spent a period of 54 weeks for that .
- (ii) The Company which had bid up the lowest bid amounted to Rs. 270 million had been selected from 09 bids received for the Project. Being completion of a construction project successfully not less than the value of Rs. 250 million in similar nature as a major contractor had to have within 12 months during the past 05 years was an evaluation criteria included in the bid documents. However, it was revealed in audit that the information of construction of the building complex of the Central Provincial Secretariat which had been mentioned by the contractor as a pre-qualification appeared in the bid documents was a construction done by another company.
- (iii) Even though the maintenance cost of five years after the free hold maintenance period included in the bid documents as an evaluation criterion as per the Paragraph 5.3.19 of the Government Procurement Manual, the Technical Evaluation Committee had given its recommendation without evaluation of that criterion.
- (iv) Attention had not been drawn in respect of the difference of the address indicated in the Bid Security Bond submitted by the Bidder and the address specified in the Bid documents whilst conducting of the Bid evaluation.
- (v) Even though the prior approval of the Engineer should be obtained for all sub contract work within six months of awarding the contract in terms of the decision of the Procurement Committee, actions had not been taken so even by the date of 09 months elapsed after the contract was awarded .
- (vi) Although the work should be completed by 13 November 2018 in terms of the Contract Grant Letter 154 days had elapsed after the contract awarded, due to the contractor had not offered an insurance cover and not produced acceptable Performance Security Bond it had been recommended to cancel the contract by the Consultation Firm on January 23, 2018 . However, commencement or cancellation of the works of the Project not been made even by 30 June 2018 .

- (vii) Consultancy services had been obtained from the Central Engineering Consultancy Bureau without selecting a supplier on a competitive basis in terms of the Paragraph 1.2.1 of the Guideline for Selection and Employment of Consultants and a sum of Rs. 15 million had been paid as consultancy fees by 03 July 2018 .
- (viii) Despite the failure to confirm as per the relevant committee minutes that the procurement was carried out outside the normal working hours, a sum of Rs. 98,000 had been paid to 09 Members of the Procurement Committee in contrary to Paragraph 2.9.1 of the Government Procurement Manual.

**(b) Examination on Procurement Procedure of National Stroke Center at Mulleriyawa Base Hospital**

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The following observations are made in this regard.

- (i) The construction project of the National Stroke Center in Eastern Colombo Base Hospital which had been approved by the Department of National Planning in the year 2014 and the Cabinet of Ministers in the year 2015 consisted with 04 storied at a the total cost estimate of Rs. 543 million, the approval from the Department of National Planning, Ministry of Finance and the Cabinet of Ministers had not been obtained to increase the number of floors from 04 to 06 and the total cost estimate from Rs. 543 million to Rs. 1,746 million.
- (ii) This project had not been included in the Main Procurement Plan or Annual Action Plan prepared for the year 2017.
- (iii) According to the Paragraph 4.2.3 of the Government Procurement Manual, even though this procurement should have been completed during minimum 3 weeks to maximum of 10 weeks period, 60 weeks had been spent for that.
- (iv) As a result of non- submission of the Technical Evaluation Report accurately in accordance with Paragraph 2.11.3 of the Government Procurement Manual, the delay occurred was five weeks. The time taken for issuing of the Contract Award Letter without any special reason were 10 weeks.
- (v) The consultancy services had been obtained from the Central Engineering Consultancy Bureau without selecting a supplier on a competitive basis in terms of the Paragraph 1.2.1 of the Manual for Consultancy Services and a sum of Rs. 41 million had been paid by 31 December 2017 as consultancy services fees .

**(c) Procurement on 95 Types of Desktop Computers for the Ministry of Health**

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The total amount paid for the purchase of 95 Desktop type computers requested by various Divisions of the Ministry during the period from May 2015 to January 2016 using the Shopping Method at 04 occasions of initial ordering and 03 occasions of re-ordering pertaining to the 04 procurements in the year 2017 amounted to Rs. 13,256,640 . The following observations are made in this regard.

- (i) The total cost estimates for each procurement had not been prepared as per the Guideline 4.3 of the Government Procurement Guidelines.
- (ii) Although the opening of the Bids should be made by the Procurement Committee or an appropriate Committee appointed by them in terms of the Paragraph 6.3.3 of the Guidelines to ensure the transparency and the continuity of the Bid evaluation procedure and selection procedure and to ensure that the confidentiality of the information provided by the Bidders in terms of Guidelines 1.2.1 (f) and (g) of the Government Procurement Guidelines, the Director Supply and Administrative Officer had opened the Bids.
- (iii) In terms of Guideline 6.3.6 of the Government Procurement Guidelines the activities in respect of opening of bids had not been maintained recording in a prescribed format .
- (iv) The Procurement Committee had not approved the Procurement Decision in 04 procurement instances in terms of the Guideline 2.14.1 of the Government Procurement Guidelines and on behalf of that the Director (Supplies) had purchased based on the approval of the Secretary to the Ministry and the approval from the Ministry Procurement Committee had obtained subsequently.
- (v) Even though the necessity for 95 computers had been identified by April 2017, the procurement had not been carried out to fulfill that requirement at the time. Due to the fact that the procurement was carried out on 04 occasions instead of that , having had the opportunity to purchase 95 computers for a Rs. 132,000 each had lost and purchasing only 24 computers for a Rs. 132,000 each, 25 computers for a Rs. 149,000 each and 46 computers for a Rs. 138,340 each had to be purchased , the total loss occurred amounted to Rs. 716,640.
- (vi) The bidder who had substantially responded for the bids called on 11 April 2016 for the purchase of 17 computers at the lowest bid amounted to Rs 128,500 had been refused mentioning that an additional fee of Rs. 33,000 was requested by him for the software . Accordingly, it had been decided to purchase 17 computers from the Bidder who had submitted the second lowest bid of Rs. 149,000 and 08 computers by re-ordering. However, it was not confirmed that the bidder who had submitted the lowest price had asked for an additional amount of Rs. 33,000 for software. Accordingly, a sum of Rs. 512,500 had been paid for 25 computers purchased in excess.

**(D) Weaknesses in the Procurement Process of supplying Medical Gas to Government Hospitals**

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Medical Devices such as Medical Oxygen, Medical Breathing Air, Nitrous Oxide, Carbon Dioxide and Liquid Nitrogen and Liquid gas are known as medical gas which are required to patients in various units such as intensive care units, operating theaters, immature infants units and wards in Government Hospitals and the following observations are made in respect of the procurement of Medical Gas.

- (i) A methodology for registering and regulating Medical Gas or Medical Gas Suppliers had not been identified and an examination had not been conducted regarding whether the medical gases including oxygen which are directly provided to the patient were in proper standard.
- (ii) Whilst the procurement of Medical Gases at a total cost of Rs. 371 million to 39 government hospitals pertaining to the years 2017 and 2018 the contract for the supply of Medical Gases to 32 government hospitals had been awarded to a new supplier by breaking the existing monopoly. But the contract had been awarded to the new supplier without consideration whether there was a manufacturing capacity, safe stocks, liquid gas storage tanks, transport facilities and financial ability and it had occurred to award the related contract back to the old supplier later on pertaining to 06 hospitals.
- (iii) Despite it could have been able to call Bids at once for Medical Gases for the 39 hospitals belonging to the Ministry, calling of National Bids made for 39 hospitals separately, the Technical Evaluation Report and the Procurement Committee Report which were prepared by meeting on behalf of the 07 Technical Evaluation Committee members and the 03 Procurement Committee members relating to this procurements considering as 39 procurement decisions were taken by meeting separately for 39 hospitals and attached to the Reports and a sum of Rs. 1,251,000 had been paid as sitting allowance to the related Committees. But, if the bids were called at once the sum which could have to be paid was only Rs. 209,000. Accordingly, the excess payment made was Rs. 1,042,000.

**(e) Procurement of Medical Imaging Equipment for Epilepsy Hospitals at the Colombo National Hospital**

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The Medical Imaging Equipment such as Medical Magnetic Resonance Imaging Scanner (MRI), a Single Proton Emission Computed Tomography Scanner (SPECT), Positron Emission Tomography Scanner (PET-CT) and Digital Subtraction Angiography System (DSA) had been purchased at a total cost of Rs. 732.77 million with local taxes, customs duties and banking charges for the Epilepsy Hospital. The following observations are made in this regard.

- (i) Even though the International Competitive Bidding was called for the first time for this procurement in 2013, it had not been mentioned in the advertisements that the registration certificates issued by the Registrar of Companies should be submitted and the bidding documents



published for calling bids in accordance with Section 08 of the General Contract Act No. 03 of 1987 .

- (ii) Even though performing with non-registered suppliers under the Act is prohibited to public institutions in terms of the Section 12 of the General Contract Act No. 03 of 1987 , almost one year period had spent to evaluate the bids of 04 bidders who did not submit that registration.
- (iii) Even though the Bids had been called again after cancelling the first procurement considering there non-submission of registration certificates by the bidders issued by the Registrar of Companies under Section 8 of the Public Contracts Act No. 03 of 1987, bids had been called in the second procurement by making contract package. The members appointed for the Technical Evaluations Committee that had been nominated for the two procurements were same and it was not revealed in audit that the reasons for the bids called at the second time for the MRI and SPECT machines under the one file , and the PET-CT machine in a separate file.
- (iv) Even though the U.S. Food and Drug Administration Certificate valid for the bidding period with the bidding documents for the each machine should be submitted by suppliers in terms of Section 11.1 (k) of the Bid Data Sheet consisted in the Section I of the Bids Calling Document, the Bid awarding had been recommended for a bidder who had submitted a photocopy of a certificate invalid for the month of October 2014 instead of replaced by the original certificate with the Bid documents for the MRI and PET-CT machines whereas the Bids called. Since this was a major exclusion, even though the bid should be rejected as per Guideline 7.8.2 of the Government Procurement Guidelines, awarding the procurement to the supplier had been recommended considering as all specifications that were fulfilled.
- (v) As per the technical specifications referred to in the submitted Bid Documents, at a cost of Rs. 583.39 million for MRI, SPECT and PET-CT machines, purchased machine models should be a model first introduced in 2010 or later and that specification was a Critical Factor in terms of technical specifications of the equipment. However, in the bidding documents submitted by the supplier had not specified in which year the machines were first introduced and according to Guideline 7.8.2 of the Government Procurement Guideline, as this was a major exclusion, the bid should be rejected it had been recommended that to award the procurement to the supplier considering that all the specifications had been fulfilled.
- (vi) The Bids for the SPECT machine had been submitted by only one Bidder and due to the Sambia E Dual-type SPECT machine included in the Bid had failed to comply with a number of critical factors in the Technical Specifications, the Bid had been rejected. At the end of the bidding process, instead of this machine, a Symbia Evo Excel-type SPECT machine which was not introduced to the market had been purchased from that Company (US \$ 410,050) for the value of the Bbids of the declined machine without being confirmed the Technical Specifications in writing and had not offered an opportunity for other bidders to bid. Further, it was revealed that the Procurement Committee and Technical Evaluation Committee

had kept direct contacts with Bidders in contrary to the Guideline 2.7.1 of the Government Procurement Guidelines.

- (vii) There was no evidence revealed that the U.S Food and Drug Administration Certificate which was a basic technical specification for the purchased DSA machine had been obtained and, the cost of the Plant and Machinery Spare Parts being supplied from abroad which are essential for the operation of the machine amounting to US \$ 248,195 had not been considered during the evaluation in contrary to the Bidding Terms . Accordingly, the UPS device which was an additional part to be imported from overseas had been purchased from the same supplier at an additional cost of Rs.3,973,649 without following any procurement procedure.
- (viii) The Bidder shall indicate in the Bid in respect of the Plant and essential Spare Parts Supplied from abroad, which is essential for the operation of the PET-CT Machine as specified in the Bid Document, and the cost of such essential equipment must be added at the Bid Price whilst the evaluation of Bid. Even though the supplier must include prices for the UPS device essential to operate the PET-CT machine under that, the Technical Evaluation Committee had not considered about non- inclusion as such. As a result of that , a UPS device had been purchased for the PET - CT machines also with an additional cost of Rs. 4,006,132 without following Procurement procedure whatsoever from the same Company where the PET-CT machines purchased. Further, Procurement of those UPS devices had been made as a separate procurement under a Project Technical Evaluation Committee and a Project Procurement Committee and the reasons that led to the change of these committees had not been disclosed.
- (ix) As per the agreements entered in to with the purchasing companies, that had agreed to provide Onsite Training and the Training on Before Commissioning of the Medical Imaging Equipment for a period of 02 weeks at an overseas Neurology Center specialized for Epilepsy treatment to 04 Radiologists, 08 Radiology Technicians and 04 Bio-medical Engineers had not been completed even by 01 August 2018 and prior to completion of the training, the total amount which should have to be paid for sickness detection machines had been paid to the suppliers.
- (x) The Radiation of Fludeoxyglucose (FGD )the radio-active material is an essential element for the PET-CT Scanning Machine and had to import that material from abroad as there is no program for locally produced. As per the Bid documents furnished by the PET-CT Scan Machine supplier, had agreed to import and supply that radio-active material called FGD. Even though the PET- CT machine had been commissioned by October 2016, the machine had remained in idle due to the failure of being functioned to implement the FGD radio-active obtaining program and the Epilepsy Clinics had not functioned properly.
- (xi) As a result of not purchasing of the laboratory and other equipment estimated for total value of Rs. 19.667 million required for the proper functioning of PET-CT, SPECT and DSA machines, those three machines were unable to properly utilized for more than a year.
- (xii) The warranty period agreed with the supplier for the machines , shall expire on the following day in the 36 months from date of installation or 39 months from date of delivery, whichever is earlier.

Accordingly, although the warranty period ends by the 31 August 2019, lack of Fludeoxyglucose (FGD) material required for the PECT-CT machine and lack of laboratories and other equipment for the proper operation PET-CT, SPECT and the DSA machines for proper operation, the equipment had remained in idle and before the start of proper operation of them almost 24 months had elapsed from the warranty period.

- (xiii) The supplier had informed that the portion of Liquid Helium included in the Cold Head Section of the MRI machine was depleted and it had been informed that the responsible staff of the hospital had not reported that condition to the supplier promptly and the machine was not used continuously after the machine was installed were the causes for this. In terms of the Sub Clause 25.3 of the General Conditions of the Contract Agreement with the Supplier, this event was preceded by the operational acceptance of the machine prior to 06 March 2017, supervision of the level of "Liquid Helium" of the machine according to Technical Specification No. 15, refilling expenses, Helium level monitoring, refill expenses should be realized under the scope of the 5 years maintenance contract, though the supplier should be responsible for this, without considering that a sum of Rs. 895,000 had been paid by the National Hospital on 31 May 2017 to the supplier for upgrading the machine.

**(f) Procurement of Construction and Repairing of Polonnaruwa General Hospital**

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The Following observations are made in this regard.

- (i) Three quotations which carried lower value had been rejected without an acceptable reasonable reasons for the construction contract of the corridor from the new Out Patient Department (OPD) building to the surgical ward complex. The contract had been awarded to the contractor who had submitted the highest bid exceeding the lowest bid price by Rs.379,508 to the highest price of Rs. 4,702,110 . However, the corridor had not been worked out according to a first plan which had been prepared without a proper study, that plan had not been revised to accommodate to the changes made. No formal written approval had been obtained for the changes made.
- (ii) The contract on the Repairs of the Stage II of the Administrative Building had been awarded to a sum of Rs. 9,928,888 on 16 November 2016, and although it had been informed by the contractor to the hospital in writing as it was impossible to be on 05 December 2016, actions had not been taken to convert the Bid Security amounted to Rs.180,000 to money which was valid up to 22 January 2017.
- (iii) The relevant work for 02 projects such as the improvement of the Orthopedic Clinic building and the improvement of the Mortuary had been completed and the final bills had not been submitted. However, a sum of Rs. 628,486 had been paid for the work that was not done on that day whilst made the payments on inter-bills.

**(g) Procurements in Matara General Hospital**

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The following observations are made.

- (i) A Major Procurement Plan had not been prepared by the Matara General Hospital for the year 2017 and even though only an Annual Action Plan had been prepared, no evidence was submitted that an approval was obtained for that.
- (ii) The provision amounted to Rs. 17,742,291 received by the Matara General Hospital for the purchase of laboratory equipment in the year 2016 had not been fully utilized and out of the provision received amounting to , Rs. 6,504,955 only a sum of Rs. 22,823,600 had been utilized for the year under review.
- (iii) According to the Procurement Plan prepared by the Bio-medical Engineering Services Division for the year under review, even though it had been planned to purchase 45 medical equipment at the estimated cost was Rs. 126.15 million for the Matara General Hospital, only the provision of Rs. 14 million had been provided. Only commencement of the procurement activities had been made for purchasing of 08 medical equipment by 31 December 2017.
- (iv) Even though it had been requested to the - Ventilator the Biomedical Engineering Services Division to provide the 08 Ventilator ICU - Adult and Paed appliances which was most essential for the Matara General Hospital on 04 of February 2017 , the equipment had not been provided even by January 2018.
- (v) Even though the suppliers had been selected by 15 November 2017, after carrying out the Procurement Procedure for the purchase of 04 required Medical Equipment required for the General Hospital , Matara during the year under review, the purchase orders had not been issued by 19 January 2018 at the date of audit and the time period for bidding had expired at that time. Further, though the purchase orders for 7 other medical equipment had been issued by 02 December 2017, the Performance Bonds had not been obtained even by 19 January 2018.
- (vi) The bids had been called for obtaining of the Janitorial Service for year 2017/ 2018 for the Matara General Hospital and the affiliated institutions in the month of March 2016 . The following observations are made in this regard .
  - ❖ The mathematical errors occurred whilst calculation of labour costs for the second bid had not been corrected and if so, the bid evaluation had been carried out without considering the fact that the decrease of the value of the Bid by Rs. 27,662,074 less than the Bid of the selected Bidder .
  - ❖ Based on submission of a lower bid than the employee's minimum wage by a bidder who had submitted the second lowest bid of Rs. 63,223,000 by rejecting his Bid the contract had been awarded to the Bidder who had submitted the highest bid of

Rs. 75,119,731 . However, since the minimum wage of a worker per day was Rs. 540 whilst the second minimum bidder had mentioned as the wage of a worker per day was Rs. 560 , it was not furnished to audit how his bid was rejected based that criterion.

- ❖ The attention had not been drawn in respect of the matters such as the bid submitted whilst the evaluation of Bids must have been included in the Annual Estimates, bids should be existed at a fair and acceptable level as compared to the past year's prices and the prices on chemicals should be fair as compared to the normal market prices in terms of the Procurement Conditions .
- ❖ Although the contract had been awarded to the Bidder who had submitted the highest bid amounted to Rs. 68,999,877 by deducting , the overhead charge included in the Bid amounted to Rs. 6,119,731 , it was not verified relating to what cost within the overheads, the bid value was deducted . However, as compared to the overheads of the preceding year, overheads of this year had increased by 2,584 per cent .
- ❖ Although the hospital had estimated that a sum of Rs. 816,900 would be incurred to purchase machine equipment required for annual services, a sum of Rs. 6,709,824 had been included in the Bid by the Bidder. It had been decided to pay the total amount to the contractor without taking any necessary action to purchase the equipment by the hospital and to provide it to the contractor.
- ❖ Even though the employees who have been deployed for the services should wear an official identity card in terms of No. 32 (i) of Procurement Conditions, it had not been fulfilled that condition even by 11 January 2018, the date of more than two months elapsed whereas the contract was awarded.
- ❖ Although an amount had included in the bid to pay overtime for employees, it was confirmed that the employees were not paid overtime allowances. However, a sum of Rs. 2,121,057 had been billed for the employee overtime two months of November and December 2017 .
- ❖ Even though a sum of Rs. 19,132,343 had been included in the Bid as administrative expenses, office maintenance and dividend expenses, there was no office being maintained with sufficient facilities, especially for women to change clothes, or an office with enough facilities and a shed belonging to the hospital which was in a very dilapidated condition had been used for that.

**(h) Procurement of Purchase of Bio-medical Equipment for the Anuradhapura Teaching Hospital**

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The following observations are made in respect of the Procurement of 03 Bio-medical Equipment purchased amounting to Rs. 11,549,000 during the year under review.

- (i) Due to lack of competitiveness for procurement, actions had not been taken to reject all the bids in terms of the Guideline 7.12.1 of the Government Procurement Guidelines and actions had not been taken to calling re-bids according to the Guideline 7.12.3 of the Procurement Guidelines .
- (ii) The supplier had been selected without considering of the non-submission of the registration certificates issued by the National Medicines Regulatory Authority in accordance with the Bid Conditions.
- (iii) The delay charges amounted to Rs. 1,089,478 had not been recovered and the payments had been made to the suppliers without checking the validity of the 03 equipment obtaining tax Clearance certificates.

**(i) Procurements in the Batticaloa Teaching Hospital**

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- (i) Two mortuary refrigerators had been purchased for the Batticaloa Teaching Hospital during the year under review at a cost of Rs.5,720,000 . The following observations are made in this regard.
  - ❖ Although at least one member should consist in a Technical Evaluation Committee with sufficient knowledge of the relevant subject area in terms of 2.8.1 (b) of the Government Procurement Guideline, a Biomedical Engineer Assistant of a government hospital who had not bear such a knowledge had been appointed to the Technical Evaluation Committee.
  - ❖ As per Guidelines 5.3.1 (d) of the Government Procurement Guidelines, Bid Recording Documents had not been reviewed and approved by the Technical Evaluation Committee .
  - ❖ Although all the bids that adequately respond should be subjected to detailed evaluation, in terms of the Guideline 7.8.7 of the Government Procurement Guidelines, out of the 06 Bidders who had submitted Bids only 02 bidders who had submitted the lowest bids amounted to Rs. 1,430,035 and a sum of Rs. 5,720,000 had been evaluated.
  - ❖ according to the Guideline 5.3.19 of the Government Procurement Guidelines, the Bids evaluation should be made paying special attention on the criteria set up in the Bidding Documents. However, without being act accordingly, the Technical Evaluation

Committee had recommended that the procurement to be awarded to the Bidder who had submitted the second lowest Bid amounted to Rs. 5,720,000 rejecting that mentioning as the mortuary refrigerators proposed to be supplied by the Bidder who had submitted the lowest Bid of Rs.1,430,035 were not being used in Sri Lanka and due to that the collection of information was impossible with regard to its functioning.

- ❖ Further, since it was observed that the specifications specially designed for the preservation of mortal remains of a previously selected type of refrigerators, the objectives such as economy, efficiency and the fairness of the procurement had not been achieved through the Evaluation of the Technical Committees. It was not confirmed the substantive responses to Bids also. Accordingly a loss of Rs. 4,761,866, had incurred to the Government in the rejection of the lowest Bid.
- (ii) Eight hundred fifty garbage containers had been purchased for the Batticaloa Teaching Hospital on 21 December 2016, incurring a sum of Rs. 3,868,350 and although the order had to be handed over within 5 weeks after the order was placed, more than 15 weeks had elapsed, actions had not been taken to recover late charges.
- (iii) One hundred seventy four side cupboards had been purchased by incurring a sum of Rs. 2,220,720 in the year 2016 by the Batticaloa Teaching Hospital and the following observations were made regarding that.
- ❖ Requests had not been furnished in writing by any ward mentioning that the requirement of the side cupboards.
  - ❖ The Regional Procurement Committee of the hospital had carried out this procurement by exceeding maximum financial limit amounted to Rs. 1 million which can be dealt under the shopping method to a Provincial Procurement Committee of a Government hospital .
  - ❖ Even though as per the technical specifications, these side cupboards should have been entirely made of Teak, it was observed at the physical examination in certain supplies parts of the side cupboards were made of Formica Sheets but not made of Teak Wood and it had been painted in the form of Teak Wood and some parts of the supplied cupboards had already decayed.
  - ❖ The procurement had not subjected to an adequate competition and it was confirmed that the procurements had been carried out by applying shopping method excluding the method of National Competitive Bids .
- (iv) One hundred and twenty eight adjustable beds had been purchased for a sum of Rs. 90,800 per each incurring Rs. 11,622,400 for the Batticaloa Teaching Hospital during the year under review and the following observations are made with regard to that.

- ❖ These procurement activities had been carried out by the Regional Procurement Committee of the hospital exceeding the maximum financial limit which can be dealt under the shopping method amounting Rs. 1 million to a Procurement Committee of a Government hospital.
  - ❖ This procurement had not been included in the Annual Procurement Plan for the years 2016 or 2017 and the requests for beds from hospital wards were not submitted.
  - ❖ Specifications of the adjustable beds had not been prepared in consultation with the Biomedical Engineering Services Division of the Ministry of Health, Nutrition and Indigenous Medicine. Since the specifications prepared by the Director of the Hospital who was the Chairman of the Procurement Committee had not emphasized the international standards in determining the criteria for the thickness of the metal, measurements on related fixable metal parts, proportions of the weight, and the measurement / scale of the bed, the possibility for bidders to be fair, realistic and competitive had been limited. Similarly, the technological specifications had been prepared to be able to respond to a predetermined supplier.
  - ❖ A loss of Rs. 5,657,000 had incurred to the Government due to the refusal of providing a wrong recommendation in respect of 03 technical specifications for the bid amounted to Rs. 5,126,000 which was less than 50 per cent of the Bid which had been submitted by the Bidder who was selected by the Technical Evaluation Committee.
  - ❖ It was observed at the physical examination conducted on 17 May 2017 according to Specification No. 11, instead of the colour of the beds handed over with the Bid proposed to be supplied similar to the color photographs; other types of beds had been provided, 20 beds supplied had broken, because of the safety bars of both sides of the bed had been fixed only up to the middle of the bed and that the patient would be inconvenienced at the time of getting up, getting down and sitting on the beds and although the cover of the mattress had to be finished using of Rexene, it had been made by types of clothes.
- (v) The following observations are made regarding the purchase of 17 air-conditioning machines at a cost of Rs. 2,974,300 for the Batticaloa Teaching Hospital.
- ❖ The National Blood Transfusion Service had purchased 09 air condition machines with a capacity of 12,000 BTU to 48,000 BTU for Rs. 670,565 from the Sri Lanka State Trading (General) Corporation in 2016. The Teaching Hospital had purchased 17 air condition machines from another supplier during the year under review with the capacity of 12,000 BTU to 48,000 BTU in the same specifications of those air condition machines. The bids had not been called from the Sri Lanka State Trading (General) Corporation Ltd.



and the amount overpaid due to not processing of the purchase from that institute for 17 machines was Rs. 1,049,036.

- ❖ This purchase had been carried out without identifying the requirement at once and using a prepared register in an informally and incomplete manner with the names of the registered suppliers .
  - ❖ This procurement had been made exceeding Rs. 1 million which was the maximum financial limit could be able to act under shopping method to a procurement committee of the Teaching Hospital .
- (vi) The first phase of the construction of proposed mortuary building which was proposed to be completed by several stages with the total cost estimate of Rs. 50,625,600 in the Batticaloa Teaching Hospital, had been awarded with a contract valued at Rs. 8,146,021 and the following observations are made with regard to that .
- ❖ Although the National Competitive Bidding Method should be followed for this procurement as per the powers given to the Regional Procurement Committee of the Batticaloa Teaching Hospital whereas the Engineer's Estimate was Rs. 8,147,081, instead of that the Shopping Method had been followed .
  - ❖ The nine bidders were equally qualified bidders and even though Bidder who had offered the lowest the bid the out of them had been rejected due to the bid was lesser than the engineering estimate by 25.67 per cent, actions had not been taken to call an rate analysis of the contractor and consider the ability to achieve the activities and to call additional Performance Bond with a higher value to minimize the risk before rejecting the Bid in accordance with the Guideline 7.9.11 of the Government Procurement Guidelines.
  - ❖ Even though the second lowest bidder who had offered the lower bid less than the engineering estimate of 13.86 per cent had been selected , actions had not been taken to call an rate analysis of the contractor and consider the ability to achieve the function and to call additional Performance Bond with a higher to minimize the risk before making selection so in accordance with the Guideline 7.9.11 of the Government Procurement Guidelines.
  - ❖ Because of selection of the second lowest bidder without considering the possibility of choosing the first lowest bidder performing in accordance with Guideline 7.9.11 of the Government Procurement Guidelines the loss occurred to the Government was Rs. 962,124 .
  - ❖ According to Paragraph 8 of the General Contract Act No. 03 of 1987, the contracts valued at Rs. 5 million or more should be submitted and registered to the Registrar of Common Contract within 60 days after the relevant agreement, it had not been so done.

**(j) Kurunegala General Hospital**  
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Instead of calling bids from Registered Suppliers following the shopping method for obtaining surgical equipment, those had been purchased incurring a sum of Rs. 5,360,294 at 09 instances and as a result of calling Bids from the institutions which were not the surgical equipment suppliers during the year under review in view of the bid submitted by one bidder excluding the competition.

**(k)** The following observations are made regarding the procurement of raw, dry and processed food supplies to the Sri Lanka National Hospital relating to the year 2016 / 2017.

**(i)** Even though an expert in the field of expertise should be appointed as a member in the appointment of a Technical Evaluation Committee in terms of Guidelines 2.8.1 (b) of the Procurement Guidelines, a Nutritionist had not been appointed for the Technical Evaluation Committee for this procurement.

**(ii)** Although all details of the materials intended to be procured in terms of Guideline 5.3.3 of the Procurement Guidelines, should be made available to the suppliers, though the measure unit of foodstuffs specified in the requirement schedule to be provided attached to the Bidding Documents submitted had been mentioned as packets and tins as the unit of measurement, the weight of a unit had not been shown specifically.

**(iii)** Although only the necessity of the food types relating to the procurement had been aware to the Suppliers, about the ingredients in those foods or the weighing quantity of packets or tins appeared as units relating to food items had not been furnished to the suppliers.

**(iv)** Even though the items such as the nutritional supplements enhancing immunity, the nutritional supplement for kidney patients, nutritional supplement for the liver patients and the high energy nutritional supplementary were available only as packets in the marketplace, the necessity of those items appeared as tins in the bidding documents and the nutritional supplement for diabetic patients and the nutritional supplement for high protein were available only as tins in the marketplace whereas the requirement of those items had been appeared as packets in the Bid documents.

**(v)** In order to examining the details of the Bids mentioned in the Bidding documents before calling Bids and whilst evaluation of the Bids submitted by the suppliers, the market position of the goods should be considered and since it was not done, the matters such as the non- appearance of exact weight of the related nutritional supplements mentioned above, and the prices of the goods submitted as packets available in the marketplace as tins and the prices of the stuffs submitted as tins available in the marketplace as packets had been impossible to disclose.

**(vi)** Even though the lowest Bid of one tin of the nutrition supplement called 'Impact' which upgrades the immunization had been submitted as Rs.1,390, since it was not mentioned the weight to be included specifically in a tin, the Technical Evaluation Committee had not disclosed the exact weight should be content in a supplied tin.

- (vii) Although it had been agreed to supply one tin of the nutrition supplement called 'Impact' which upgrades the immunization for Rs.1,390 per each , it had been supplied as one pack consisting 05 sachet packets of 74 grams and a sum of Rs. 1,390 had been paid for one sachet packet. Since the Market Retail Price of one pack consisting 05 sachet packets was Rs. 1,825 whereas the Market Price of the 74 gram of sachet packet was Rs. 365. However, since the supplier had paid Rs. 1,390 each for one packet, the total amount paid more than the Market Price for the 23,304 ' Impact' sachet packets purchased from 01 December 2016 to 19 October 2017 for a sum of Rs. 1,025 per each sachet packet as compared to the Market Price was Rs. 23,886,600 .
- (viii) Due to the Technical Evaluation Committee had performed in negligence it was failure to disclose the information given in (v) and (vi) above whilst the evaluation of prices and even though the Supply Division of the National Hospital had taken actions to pay the agreed amount for a tin to a pack of 5 pack sachets whilst making the payments to the supplier for the nutrition supplement provided relating to the 2015/ 2016. However , the total loss occurred to the Government as a result of not drawn the attention in respect of the invoices made for Rs.1,390 per packet by the supplier for the relevant nutrition supplement provided in the year 2016/ 2017 was Rs. 25,914,048 .
- (ix) Even though the prices agreed to provide the supplements such as Pentase 2.0 and Pentasure Renal purchased as high protein nutritional supplements were Rs. 1,060 and Rs. 839 per packet respectively, Rs. 1,390 and Rs. 1,100 had been paid respectively for a packet and the total amount overpaid were Rs. 240,900 and Rs. 39,933 respectively.

## 2.5 Assets Management

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The following deficiencies were observed during the sample audit tests carried out in respect of the assets of the Ministry.

### (a) Documentation of Assets

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- (i) A Register of Fixed Assets had not been maintained in respect of Plant and machineries, constructions ,buildings and lands of the Ministry in terms of the Treasury Circular No. 842 of 19 December 1978 . Even though only a Register had been maintained in relation to office equipment and furniture, that had not been prepared being included the values of the assets according to the Circular.

- (ii) As per the Treasury Circular No. IAI/ 2002/02 dated 28 November 2002, a Register of Fixed Assets in respect of Computer Accessories and Software had not been maintained and it was reported that those registers were being prepared even by 17 August 2018.
- (iii) The Register of vehicles with particulars of the vehicles of the Ministry and the institutions and hospitals had not been maintained properly and regularly in terms of Financial Regulations 1647 (e).

**(b) Vehicle utilization**

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The following observations are made in this regard.

**(i) Non- submission of Information on Usage of Vehicles**

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Even though there were 251 vehicles belonging to the Head Office of the Ministry by the end of the year under review, details of the kilometers that were driven by the vehicles, the cost of fuel and lubricants for that and the details of the service those vehicles, repair and insurance costs had not been furnished to audit.

**(ii) Not testing the Fuel Consumption**

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According to Paragraph 3.1 of the Public Administration Circular No. 30/ 2016 dated 29 December 2016, the consumption of fuel must be re-tested after a period of 12 months from each fuel test or after running a distance of 25,000 km or after carrying out a major repair to the engine, whichever occurs first, the fuel burning test in respect of the Ministry vehicles had not been carried out for many the years.

**(iii) Vehicle Usage for the Matters out of the Approved Activities**

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Even though 458 motor vehicles obtained under the Financing Lease Method should be utilized for the purposes approved by the Department of National Budget in terms of the Budgetary Circular No. 150 of 07 December 2010, twenty eight motor vehicles out of 95 had been deployed for the works excluding approved works from January 2017 to October 2017, information that could be used to confirm whether 363 motor vehicles were deployed for the approved work were not submitted for the audit.

**(iv) Vehicle Usage in Contrary to the Provisions of the Circular**  
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- ❖ In terms of Paragraph 3 of Circular No. CAA / 1/17/1 of 14 May 2010 issued by the Secretary to the President, exceeding approved number of vehicles to be used to the Minister , Staff and Ministerial Office and Hon. Deputy Minister and staff , 15 additional vehicles to the present Hon. Minister and staff Minister's Office, 8 additional vehicles to present Hon. Deputy Minister and the staff, and Deputy Minister's Office had also been allocated by the Secretary to the Minister.
- ❖ According to the Registers maintained by the Security Forces of the Ministry, since it was revealed that 03 vehicles for the Honourable Minister of Health, Nutrition and Indigenous Medicine that there had never been arrived at the Ministry at any time during the period from 01 January 2017 to 30 June 2017 it was impossible to make a comment in respect of using these vehicles.
- ❖ The vehicles of the of the Ministerial vehicle pool had been issued to the Ministerial staff and the Deputy Minister's staff in 314 occasions during the 01 January 2017 to 30 June 2017, and 102 instances of these 314 cases, the total distance driven and the expenditure on fuel as 56,182 kilometers and Rs. 795,370 respectively. Due to non-submission of running charts consisting the information in respect of the rest of the 212 occasions to audit , the distance driven and costs of fuel could not be disclosed.

**(v) Fuel Usage in Contrary to the Provisions of the Circular**  
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- ❖ In terms of Paragraph 02 of Circular No. 08/ 2010 dated 24 May 2010, in addition to the fuel allowance granted to the Deputy Minister's staff, 3,433 liters of fuel cost at Rs. 326,135 had been provided during the period from 01 January 2017 to 31 August 2017.
- ❖ Exceeding the approved fuel allowance of the Hon. Deputy Minister in terms of the Paragraph 04 of the of Public Expenditure Management Circular No. CA /1 / 17/1 of 14 May 2010, thirteen thousand nine hundred forty nine liters of fuel worth of Rs . 1,486,481 and fuel advances amounted to Rs. 1,109,033 had been issued for the fuel for vehicles allocated to the office of the Deputy Minister from 01 January 2017 to 31 August 2017 .

**(c) Vehicle Utilization under Financing a Lease and Operating Lease**  
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The details of the 458 vehicles obtained by the Ministry under Financing Lease Method such as the money paid as lease, fuel, lubricants, repairs, service expenses, and vehicle insurance expenses as

well as the particulars of number of kilometers of those vehicles were driven and the fuel cost for 02 vehicles obtained under the Operating Lease Method also had not been furnished to audit.

**(d) Office Maintenance expenses**

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Six buildings are in the Head Office premises of the Ministry and a Section of the Head Office is being maintained in a building which was undertaken on for a sum of Rs. 124,200,000 per annum. The annual janitorial service fee was Rs. 34,441,763 and the security service charge was Rs. 33,770,472 . Accordingly, the total cost of the building was Rs.192,412,235. Even though it was planned to construct a new building complex with the objective of improve the office space and to complete its work by 29 October 2016, due to the lack of proper planning, the foundation work of the building had only been completed .

**(e) Non-revenue receivables due to the government**

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As revealed in an audit test checks , the arrears due from the cafeterias maintained in Jaffna, Badulla and Kandy hospitals as at 31 December 2017 were Rs. 17,441,287.

**(f) Decrease in the Value and Quality of Government Assets**

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Due to use of assets belonging to the Government with maximum efficiency, protection , maintenance and improvement were not being done, the instances of decrease in the value and the quality of those assets are shown below.

<b>Name of the Hospital.</b>	<b>Unit/ Ward No.</b>	<b>Name of the equipment</b>	<b>Value</b>	<b>Period of Inactive</b>
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			<b>Rs.</b>	
Teaching Hospital- Mahamodara	07	Ultra Sound Scan Machine	10,000,000	From 17 June 2017 to 27 December 2017 the date of audit
General Hospital - Mathara	Laboratory	Fully Automated Bio- chemistry Analyzer	Not submitted to audit	From 20 October 2017 to 10 January 2018 the date of audit

-Do-	EEG Section	EEG machine (XLTEK)	Not submitted to audit	From the year 2015 to 18 January 2018 the date of audit
General Hospital Hambantota	Immature Infant Unit	Phototherapy machine	530,000	From the January 2018 to 16 February 2018 the date of audit
Teaching Hospital- Karapitiya	Laboratory	Auto clave machine	Not submitted to audit	From 17 January 2018 to 16 February 2018

**(g) Idle and Underutilized Assets**

It was observed during the audit test checks that certain assets remained idle as per classified below.

- (i) Two hundred twenty four fingerprint machines which were purchased in the year 2006 incurring Rs. 31,713,813 by the Ministry had remained idle without using for more than 11 years.
- (ii) Fifty eight Medical Devices and Equipment Units the total cost at Rs.189,917,401, was in idle in 11 hospitals between 01 to 11 years. Further , 141 medical equipment and accessories units that were unable to find the cost were kept in the Polonnaruwa hospital for more than a year and 54 of them were not documented.
- (iii) A motor vehicle which was unable to find the cost had remained in idle for more than 02 years in the Trincomalee General Hospital.
- (iv) A mortuary refrigerator cost at Rs. 3,174,600 had been kept in idle at Batticaloa Teaching Hospital for more than a year .

**(h) Conducting Annual Board of Surveys**

The following observations are made.

- (i) As per the Public Finance Circular No. 05/ 2016 of 31 March 2016, carrying out the Annual Board of Survey 2017 and its reports should be submitted to the Auditor General before 15 June 2018 in accordance with the Paragraph 3.2.6 of the Circular including the Ministry, 31 hospitals and institutions among the 97 hospitals under that , had delayed to submit reports on due dates and

those reports related to 20 hospitals and institutions had not been submitted to the audit even by 17 August 2018.

- (ii) Actions had not been taken in terms of Financial Regulations in respect of the excesses, shortages and other recommendations pointed out in the Board of Survey Reports of the year 2017.

## **2.6 Commitments and Liabilities**

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The following observations are made in this regard.

- (a) The total of the unsettled liabilities which is being existed for less than one year as at 31 December 2017 by the Ministry had been totalled to Rs. 21,247 million.
- (b) It had been entered in to commitments exceeding the savings after the utilization out of the provisions made available amounted to Rs. 3,700 million in contrary to Financial Regulation 94 (1), out of the provision made for 57 Objects had been paid.

## **2.7 Informal transactions**

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It had been proposed by the Consolidated Cabinet Memorandum submitted by the two Ministers of Health, Nutrition and Indigenous Medicine and the Minister of Higher Education and Highways on 23 June 2017 to be entered in to an agreement to transfer the Neville Fernando Hospital with the physical possession of properties and other properties including buildings, to the Government of Sri Lanka for a 10 years period on a sub - lease basis, to maintain the SAIMM hospital with the right and the legitimacy of the same property as it was until settling the loan amounting to Rs. 1,013 million received from a state bank for the establishment of the hospital and to transfer the ownership of the hospital and the value of the all properties to the Sri Lankan Government at the end of paying off the loan. Considering the Cabinet Memorandum, Cabinet approval had been received on 05 July 2017 to take over the Dr. Nevil Fernando Sri Lanka-Russia Mutual Hospital, to the Government of Sri Lanka. Even though more than a year had elapsed since 20 August 2018 after obtaining the Cabinet approval, it had not entered into a sub-lease for the acquisition of the physical treasure of the buildings including other properties of the hospital and without entering in to such an agreement a sum of Rs. 309,766,380 had been incurred by the Ministry to cover the recurrent expenses related to the expenses of the drugs of the hospital during the period from 01 August 2017 to 31 March, 2018.



## 2.8 Transactions of Financial Irregularity Nature

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Details of the fraudulent transactions observed at the audit test checks are as follows.

- (a) An irregularity transaction amounted to Rs. 369,315 had been made altering the forms of Health 500 falsely as a number of 5,800 paper serviette packets in 55 occasions and hundred AAA batteries in an one occasion issued to each Department by the Store Keeper of the Kandy General Hospital .
- (b) The following observations are made regarding the salary conversion done by the Kandy General Hospital.
  - (i) A salary conversion had been made in a higher salary step than five salary increments in contrary to the salary steps from 1 January 2006 to an officer of the Kandy General Hospital who was not entitled to receive a salary conversion according to the Public Administration Circular No: 06/ 2006 (ii) dated 10 November 2006 .
  - (ii) Even though the responsibility of the Accounting Officer to perform if where the salary conversion has been done improperly if being interpreted incorrectly the Circular No. 06/2006 (ii) of 11 November 2006 to be corrected, as a result if there is an overpaid amount all that money to be recovered in terms of the Public Administration Circular No. 6/ 2006 (vi) dated 26 June 2008 , actions had not been taken to correct the wrong salary conversions of the above officer and to recover approximately a sum of Rs. 592,200 overpaid to this officer from 01 January 2006 to September 2017 and the holiday pay and other allowances paid based on erroneous salaries .
- (c) The payments had been made to the contractor whose prices were higher than the controlled price mentioned under the Gazette Notification for 07 types of food relating to the supplying of raw food items to the Ratnapura General Hospital for the year 2017, in Contrary to the decision taken by the C2 Procurement Committee of the Ministry, a sum of Rs. 2,147,453 had been overpaid for the 07 varieties of those foods to the supplier for the period ranging from 01 January 2017 to 20 December 2017. Even though the excess amount paid had been recovered from the supplier, disciplinary actions had not been taken against the responsible officers.

## 2.9 Losses and Damages

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The following observations are made regarding the losses and damages revealed at the audit test checks.

- (a) The following observations are made in respect of not recovering the values that in due to the Government because of the officers who obtained leave with pays and no pay leave for the trainings and jobs in in various fields but not reported to work again.

- (i) Due to the matters such as non-reporting to the work again after being abroad for Postgraduate Studies, not providing obligatory service period after reporting to the service and not reporting back to work after getting overseas no pay leave for employment ,the agreements and bonds signed with 86 Doctors and 62 Nurses and Assistant Medical Services Students and the Officers had been violated and the total amount identified by the Ministry to be receivable to the Government was Rs. 72,571,823 . Within this amount it was included a total of Rs. 48,110,604 recoverable from 75 Doctors who had vacated their posts from the year 1995 to the year 2014 .
- (ii) Because of non- consideration of the excess salaries paid, loan balances receivable and other payments made to 09 Doctors whilst computation of the amount receivable, which had been reported to audited as the total money receivable to Government due to breaching of Agreements and Bonds were totally received, a sum of Rs. 3,213,367 less recovered and the files had been closed . Further the values of the Bonds amounted to Rs. 718,870 receivable from two Medical Officers as per observed during the audit test checks had not been included in the above value.
- (iii) The Legal Division of the Ministry had not identified the value of the Bonds recoverable from 119 nursing students and Professionals Supplementary to Medicinal Service .
- (iv) Even though the Agreement period of Doctors and 04 other Professionals Supplementary to Medicinal Service who were being on no pay foreign leave Matara General Hospital was over, had not reported to work the bonds to be recovered from them was Rs. 2,889,381 .
- (b) Due to non- payment of electricity bills at the Kegalle Teaching Hospital on due date, an interest of Rs. 168,097 had to be paid during the year under review.
- (c) The main cafeteria of the Kandy General Hospital had been leased out from 16 June 2015 to 15 June 2016 for a monthly rental of Rs. 990,000. However, the lessee had abandoned carrying out the cafeteria since 13 April 2016. As a result of the actions taken to pay the total advance amount to the contractor without crediting the lease amount relating to the next two months to the State Revenue as per the Lease Agreement a loss of Rs. 1,980,000 had occurred to the Government .
- (d) Actions had not been taken to recover the losses and damages relating to 06 vehicle accidents occurred during the period from 2003 to 2014, at Kurunegala General Hospital amounted to Rs. 837,000.
- (e) Ninety nine types of drugs cost at Rs. 13,441,307 had expired at the Anuradhapura Teaching Hospital, as at 31 of March 2018 and had been stored at a hospital Pharmacy Store without being disposed.
- (f) Due to the distribution of drugs before the expiration was not carried out inquiring the other hospitals where the drugs required, more than 100 types of drugs had expired by the end of February 2017 at the Main Pharmacy Store at the Trincomalee General Hospital at a cost of Rs.7,806,670 .

## 2.10 Auditing paragraphs that were not resolved

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, are given below.

Reference to Auditor General's Report		Subject Referred
Year	Paragraph No.	
(a) 2017	6.6 (e) xiii	Although the party responsible for the irregularity of Rs. 10 million caused in the transportation of drugs had been identified, actions had not been taken to the recover the loss even by 15 August 2018 .
(b) 2016	3.25	Although the unclaimed various articles consisting gold articles 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 action had not been taken to bring in to State Revenue after a proper disposal procedure .
(c) 2016	3.26	Even though a period of 02 years and 08 months had elapsed from handing over of the stock of Potassium iodate used for the salt iodization valued at Rs. 5.95 million received for the Iodine Deficiency Diseases Prevention Programme as a donation of the Government of Japan conducted by the Environmental and Professional Health Division the related money had not been recovered from the Ceylon Salt Ltd.
(d) 2016	3.28.2	No steps whatsoever had been taken by 15 August 2018 in respect of the overstepping of his official powers by the Director General of Health Services and some other officers who had overstepped of his official powers in contrary to the Extraordinary Gazette No. 1295/ 26 dated 02 July 2003 and the Extraordinary Gazette No. 1733/ 52 dated 25 November 2011.

## 2.11 Management weaknesses

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The following weaknesses were observed during the audit test checks.

- (a) The First Plan of the Epidemiology Hospital of the Colombo National Hospital had been prepared in the year 2008 and the Piling Contract of the building for a sum of Rs. 91,373,499 on 21 September 2012, the construction of the Building Contract for a sum of Rs. 1,793,448,086 on 31 of May 2013 had been awarded. Due to a lack of proper planning after a proper study, plans had been made to change the designs during construction, the construction contract value of the building had to be increased from Rs. 1,793,448,086 to Rs. 1,984,703,981 by Rs. 191,255,895. That had been a reason to be delayed the construction work around 08 years and due to the delay it had occurred to pay the value of the price variance amounted to Rs. 97,493,277.
- (b) Even though there was no right to lease out an asset belonging to the hospital to a Staff Welfare Society, the cafeteria of the Kandy General Hospital had leased out to an outside person for a Rs. 60,000 excluding the procurement procedure by the Minor Staff Welfare Society of General Hospital from 28 June 2016 to 27 July 2016.
- (c) Even though there was no right to lease out an asset belonging to the hospital to a Cooperative Cafeteria Society Limited, the main cafeteria of Kurunegala provincial General Hospital had been leased out excluding the procurement procedure based on a sum of Rs. 689,310 per month for the year 2018 as well.
- (d) As it was not mentioned the due date of the tax to be paid in the Agreement entered in to the sale of food from the mobile sales vehicle which is being conducted at the Kandy General Hospital, the tax charges had not been made in an updated manner and there was no possibility of recover the delay charges also.
- (e) Due to the lack of space in the building of Cardiac Unit at Kegalle Teaching Hospital which was opened in the year 2014, patients who arrived for the tests did not have a place to stay until there turn comes and had made a request to provide such a place. Although the requirement of an ECG machine had been made from the Ministry on 7 April 2014, those facilities had not been provided even by 23 January 2018, at the date of audit.
- (f) An amount of Rs. 762,660 had been provided by the Ministry to the Regional Director of Health Services in Ratnapura for the conduction of basic first aid training programme for the drivers of three wheelers and vans under the Non-infectious Diseases Prevention Program in the year under review through the Provincial Director of Health Services. However, seven offices of Health Medical

Officers had not held those programmes and a sum of Rs. 211,850 had been returned to the Regional Director of Health Services.

- (g) A Record for Inventory had not been maintained by sub laboratories to record receipts and issuing of chemicals and equipment distributed to 05 sub-laboratories purchasing as per the necessity to the main laboratory of the Anuradhapura Teaching Hospital. Therefore, it was not possible to confirm that the accuracy of the received, issued and remaining chemicals and equipment to the 05 Sub-Laboratories.
- (h) Due to actions not taken to provide a NEPHIOLOGIST consultant, trained nursing staff and minor staff and for the Dialysis Unit that had been commenced from the year 2013 in the Trincomalee General Hospital even by 05 June 2017 as at the date of audit, the treatments were being carried out only under the supervision of nursing officers from the machines of this Section. Because of not operating the RO water filter purchased on 02 October 2016 for this Dialysis Unit at a cost of Rs.2,782,650, due to not functioned even by 28 February 2018 it had been impossible to use six DIALYSIS machines .
- (i) Even though all the materials provided to the Contractor should be washed, cleaned and ironed and handed over to the authorized officer of the hospital within the due time in terms of Sections 2 and 3 of the Contract Agreement on obtaining the Laundry Service in the year 2016 /2017 of the Polonnaruwa District General Hospital, the complaints had been received to the Director of the Hospital in respect of the matters such as not carrying clothes at regular intervals, not washing the laundry properly and returning less than the quantity of cloth carried and the Director of the Hospital has informed the contractor in writing from time to time as not to breach the agreement with regard to that. But without taking actions to look into the contractor's pre-employment conditions ,the Procurement Committee of the Ministry had awarded the Laundry Service for a sum of Rs. 15,759,600 to the same Contractor for the period from 1 February 2017 to 31 January 2018.
- (j) Even though the day-to-day duties of the Matara General Hospital were obstructed due to minor staff who had been serving in the hospital had been severely taken no pay leave, sufficient disciplinary action was not taken against them.
- (k) In terms of the signed a Memorandum of Understanding of the Ministry of Health, Nutrition and Indigenous Medicine and the India's GVK-EMRI Lanka (Pvt) Limited, the First Stage of the Emergency Ambulance Service for pre-patient care called 'Suwaseriya' commenced in July 2017 and had been completed in July 2017, and during the same period, the Indian Government had granted provisions amounted to \$ 7.6 million for the use of 88 ambulances in the Western and Southern Provinces. The approval of the Cabinet of Ministers for the further implementation of this Project had been obtained on 01 August 2017 under the provisions of the Government of Sri Lanka and the provision amounted to Rs, 275,000,000 had been made available to the Ministry by a Supplementary Estimate for the operating expenses of the Project.

The following matters are observed in this regard.

- (i) The Ministry had not entered in to an agreement with the India's GVK-EMRI Lanka (Pvt) Limited by including the laws and regulations applicable to the operation of this service.
- (ii) Although the advances amounted to Rs.159,882,409 had been issued to the Institution on 04 occasions during the period from 01 August 2017 to 31 December 2017 advance payments were not settled as at 31 December 2017 .
- (iii) The advances settlement vouchers which had been issued by the Ministry in 04 instances for settling of a sum of Rs.134,569,464 incurred during the period from 01 August 2017 to 31 December 2017 had been turned back by the Accounts Division and the Internal Audit Division of the Ministry had observed that there were expenses non-compliance with rules included that expenditure .

## **2.12 Achievement of Service to the Public**

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The following observations are made.

- (a) In terms of the Right to Information Act, the number of information applications submitted to the Ministry by the public in the year under review were 142 and out of that 37 requests had been rejected. The Ministry had not responded to the for 74 applications and 10 months had elapsed to provide information for two applications out of the 31 responded applications provided. Out of the 74 unanswered applications 24 requests with more than 01 year delay as at 31 July 2018 and requests on 50 applications remained delay exceeding 6 months period to the date above was observed.
- (b) The following observations are made on the situations where the waste had not been disposed in an environmental friendly manner.
  - (i) All wastes disposed of including waste water of Medical and Nursing Quarters, Tuberculosis Ward, Kitchen, Canteen, Blood Dialysis Unit, Physical Therapy, Pharmacy and other buildings from nearby old buildings located around Trincomalee General Hospital premises without cleaning with a sludge system for a long time and had been allowed to flow directly into the ocean .
  - (ii) Due to lack of proper operation of the sludge disposal system for over 12 years in the Kurunegala General Hospital and the Nurses Training Collage the disposed of in toilets and contaminated water released from hospital premises into the canal near by. It was observed that the canal path is a branch canal that carried water to the Maguru Oya.

(iii) No action had been taken to minimize or prevent the use of high strength polythene and plastic in the premises of the Kurunegala General Hospital. Further, although the clinical disposals including syringes and needles and, labour room disposals are being burnt by the Hospital's Incinerator, those are not subjected to total combustion and due to the Chimney of Incinerator was about 60 feet high it was observed that the black smoke is emanating to the lower atmosphere.

### 2.13 Utilization of provision made by Parliament to Execute Activities

The particulars relating to the provision made available to the Ministry and utilization and savings for the five years period ended 31 December 2017 and audit observations with regard to that are given below.

Year	Category of Expenditure	Net Provision	Utilization	Saving	Saving as a percentage of the Provision
		Rs. Million	Rs. Million	Rs. Million	
2013	Recurrent	76,450.00	75,559.32	890.68	1.17
	Capital	18,522.26	17,435.27	1,086.99	5.87
	<b>Total</b>	<b>94,972.26</b>	<b>92,994.59</b>	<b>1,977.67</b>	<b>2.08</b>
2014	Recurrent	91,000.00	90,493.90	506.10	0.56
	Capital	26,162.00	21,627.62	4,534.38	17.33
	<b>Total</b>	<b>117,162.00</b>	<b>112,121.52</b>	<b>5,040.48</b>	<b>4.30</b>
2015	Recurrent	109,446.25	100,754.15	8,692.10	7.94
	Capital	38,718.18	29,487.54	9,230.64	23.84
	<b>Total</b>	<b>148,164.43</b>	<b>130,241.69</b>	<b>17,922.75</b>	<b>12.10</b>
2016	Recurrent	137,067.50	111,752.06	25,315.44	18.47
	Capital	39,991.70	23,027.68	16,964.02	42.42
	<b>Total</b>	<b>177,059.20</b>	<b>134,779.74</b>	<b>42,279.46</b>	<b>23.88</b>
2017	Recurrent	124,626.97	116,795.79	7,831.18	6.28
	Capital	45,594.00	27,499.73	18,094.27	39.69
	<b>Total</b>	<b>170,220.97</b>	<b>144,295.52</b>	<b>25,925.45</b>	<b>15.23</b>

The following observations are made in this regard.

#### (a) Preparation of Budget Estimates

Since the Budget Estimate which had been prepared to provide necessary allocations for the functions pertaining to the Ministry but not prepared in a realistic manner, provide provisions without considering the proposed time frame to achieve the activities; though the total provisions required had been made available by the Ministry for achieving 73 activities as per

the total expenditure estimate, due to the inability to utilize the total allocation after the feasibility studies and the procurement process by the end of the year under review out the total provision made available, a sum of Rs. 6,537 million or in between 50 per cent to 99 per cent had been saved.

**(b) Appropriation Account**  
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The following observations are made.

**(i) Non Utilization of the Provisions made available**  
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Out of the total net provision amounted to of Rs. 7,191 million made available for 42 Objects had been completely saved without any use.

**(ii) Over-provisions made available**  
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Since the over-provisions totalled to Rs. 8,879 million made available for 75 items, due to only a total of Rs. 2,248 million had been utilized out of the provisions made available for the above Objects the savings from the net provision made available had ranged from 50 per cent to 99 per cent.

**Provisions made available by Supplementary Estimate Allocation**  
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The following observations are made in this regard.

- ❖ The provision amounted to Rs. 1,459,000,000 made available for 06 Capital Objects and 01 Recurrent Object made available by Supplementary Estimates as essential and most urgent capital expenditure to provide quality and efficient health services had been totally saved.
  
- ❖ In addition to that, out of the additional provision amounted to Rs. 6,960,000,000 made available by Supplementary Estimates for 12 Capital Expenditure Objects and 03 Recurrent Expenditure Objects a sum of Rs. 3,237,413,087 had been saved. The Percentage of those savings had ranged between 18 per cent to 99 per cent out of the provisions made available to those Objects.

**2.14 Advances to Public Officers Account**  
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**Limits Authorized by Parliament**  
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The limits authorized by the Parliament for the advances to Public Officers Account of the Ministry, Item No. 11101 and the actual amounts are given below.



<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
<b>Rs. Million</b>	<b>Rs. Million</b>	<b>Rs. Million</b>	<b>Rs. Million</b>	<b>Rs. Million</b>	<b>Rs. Million</b>
1600	1,491	1,070	1,082	2,500	2,194

The following observations are made in this regard .

**(a) Failure to Adherence to Limits**

**Not reaching to the Minimum Limit of Receiving**

Although the Parliament had approved a sum of Rs. 1,200 million relating to Advances to Public Officers Account activities to the Ministry through the Item No. 11101 as minimum limit of receiving , the amount of receivables collected amounted to Rs. 1,082 million by the end of the year under review. Accordingly, the receiving had not reached the limit by Rs. 118 million. According to the Memorandum submitted to the Director General of the Department of National Budget by the Secretary to the Ministry of Health for the changing of the minimum limit of receipts of the Advance ‘B’ Account on 27 December 2017 to Rs. 1,070 million, the approval had been provided for the relevant revisions on 14 June 2018. These revisions had been mentioned in the Treasury Computerized Print Reports presented on 16 March 2018 due to lack of changes in the proper timeframes.

**(b) Not - recovering Arrears Loan Balances**

In accordance with the Reconciliation Statement furnished to audit the total of the outstanding balances on that day excluding loan balances of the officers who had station transferred was Rs. 56,133,525 and although these recurring balances were remaining as Rs. 17,726,126 between 01 year and 05 years and a sum of Rs. 21,036,883 in excess of 05 years, the follow-up actions for recovery activities were in a dilapidated condition.

**(c) Failure to recover the Balance of the Officers Station Transferred**

Even though measures need to be taken to recover the loan balances of the officers from the monthly accounts summaries who had station transferred to another place from serving in this Ministry totalled to Rs. 80 million of the related institution in terms of National Budget Circular No. 118 of 11 October 2004 actions had not been taken to recover the loan balances amounted to Rs. 62 million not so done from the relevant responsible officers in terms of the Circular.

## 2.15 Imprest Accounts

The total account balance of the Imprest Accounts under the Ministry was Rs. 342 million by 31 December 2017. The following observations are made in respect of the imprest accounts maintained by the Ministry.

- (a) The Ministry had not settled the imprest balances totalled to Rs. 242 million by 30 April 2018 and even though a sum of Rs. 362,702 out of that have been remaining since 1997 the Ministry had failed to settle those balances.
- (b) As per the Imprest Estimate prepared by the Ministry for the year under review the imprests anticipated to be obtained monthly, the details of the Imprests requested monthly and the imprest received are shown below.

Month	Imprest should be Requested as Planned	Imprest Requested	Imprest Received	Difference between Imprest Planned and Requested	Difference between Imprest Requested and Imprest Received
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
January	11,552.53	13,035.35	12,384.10	1,482.82	651.25
February	11,352.53	13,372.79	11,272.11	2,020.26	2,100.68
March	11,377.53	14,419.85	10,799.30	3,042.32	3,620.55
April	12,802.53	15,408.56	10,555.82	2,606.03	4,852.74
May	12,352.53	15,523.56	11,444.70	3,171.03	4,078.86
June	12,877.53	15,136.90	9,878.44	2,259.37	5,258.46
July	13,600.95	15,699.90	10,790.00	2,098.95	4,909.90
August	13,625.95	17,284.20	11,199.50	3,658.25	6,084.70
September	13,625.95	21,922.90	8,580.72	8,296.95	13,342.18
October	13,600.95	16,938.18	9,620.04	3,337.23	7,318.14
November	13,624.95	16,908.18	12,666.00	3,283.23	4,242.18
December	13,800.95	21,922.90	13,657.20	8,121.95	8,265.70
<b>Total</b>	<b>154,194.88</b>	<b>197,573.27</b>	<b>132,847.93</b>	<b>43,378.39</b>	<b>64,725.34</b>

The following observations are made in this regard.

- (i) In terms of Financial Regulations 371 (5) as amended by the Public Finance Circular bearing No. 03/ 2015 of 14th July 2015 although the Ad-hoc sub imprests obtained should be settled immediately after completing the task, the Ad-hoc sub imprests issued at 797 occasions totalled to Rs. 24,958,967 had been settled in delay a period of from 01 to 16 months after completion

the task . The Ad-hoc sub imprests amounted to Rs .6,300,512 issued in 120 instances had not been settled even by 31 May 2018.

- (ii) Ad-hoc sub imprests issued at 26 instances amounted to Rs. 656,170 had been returned after withholding from 01 day to 95 days without using for the intended purpose.
  - (iii) The savings amounted to Rs. 525,691 out of the Ad-hoc sub imprests issued at 35 instances amounted to Rs. 1,551,106 , had been returned in delay a period from 10 day to 195 days after completion the work.
- (c) The instances not performing in respect of the closing of cash books as per the Treasury Operations Circular No. 04/ 2017 of 02 November 2017 as at 31 December 2017 are shown below.
- (i) A Staff Officer responsible for settling the accounts of the Head Office in the Ministry had not been appointed by the Secretary to the Ministry in terms of Paragraph 1 of the Circular.
  - (ii) Handing over notes on the cash book balance as at 31 December 2017 by the Ministry and obtaining a debit note from the bank and it had not been submitted to the Department of Treasury Operations even by 31 August 2018 .

## **2.16 General Deposit Accounts**

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The total of balances of 07 General Deposit Accounts under the Ministry totalled to Rs. 1,228 million as at 31 December 2017. The following observations are made in that regard.

- (a) Actions had not been taken in respect of deposits totalled to Rs. 19,932,797 over 02 years in terms of Financial Regulation 571 .
- (b) A sum of Rs. 40 million had been received from the Presidential Fund in the years 2014 and 2015 for the construction of a special Cancer Treatment Centre at Kandy Teaching Hospital . A sum of Rs. 27,611,505 had been paid for the completion of the works of the initial stage of the land From 30 December 2014 to 31 December 2015 and the total amount of Rs. 12,867,059 including the balance amounted to Rs.12,388,495 and amounts received from three Institutions for the constructions amounting to Rs.478,564 retained in the General Deposit Account for 02 years without being used for the purpose .

## 2.17 Operating of Bank Accounts

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The following observations are made.

### Balances to be Adjusted

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The following deficiencies were observed whilst checking of the bank reconciliation statements submitted in respect of 74 Bank Accounts functioned in the year 2017 by the Ministry.

- (a) Actions had not been taken in terms of Financial Regulations 396 (d) in respect of 127 cheques issued but not presented to the Bank totalled to Rs. 1.8 million relating 27 Bank Accounts .
- (b) No actions whatsoever had been taken even by 31 March 2018 to identify and taken in to accounts 04 direct payments amounted to Rs. 38.07 million relating to 02 bank accounts and direct earnings pertaining to 06 bank accounts amounting to Rs. 0.27 million according to the bank reconciliation statements furnished.

## 2.18 Non-maintenance of Registers and Books

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It was observed during audit test checks that the Ministry had not maintained the following Registers while certain other Registers had not been maintained in the proper and updated manner.

Type of Register	Financial Regulation	Observations
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(a) Register of Fixed Assets	The Register of Fixed Assets should be maintained with the consent of the Auditor General in terms of Treasury Circular No. 842 dated 19 December 1978 and as per the Appendix 11 of Financial Regulation 502 (2) thereof .	Had not been maintained in an updated manner..
(b) Register of Fixed Assets on computers, accessories and software	A Register of Fixed Assets on computers, accessories and software should be maintained in terms of the Treasury Circular No: IAI/2002/02 dated 28 November 2002 .	Had not been maintained.

- |                         |   |                          |
|-------------------------|---|--------------------------|
| (c) Register of Damages | A Register of Damages should be maintained according to the format of the Financial Regulation 110. | Had not been maintained. |
| (d) Register of Vehicle | A Register of Vehicle in terms of Financial Regulation 1647 (e) should be maintained .              | Had not been maintained. |

## 2.19 Non - compliances

### Non - compliances with Laws Rules and Regulations

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

Reference to Laws, Rules and Regulations	Value	Non-Compliance
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	<b>Rs.</b>	
<b>(a) Establishments Code of Democratic Socialist Republic of Sri Lanka</b> -----		
(i) Section 18.4.3 of Paragraph XII		Even though the Departmental Head should take actions to apply suitable measure to the recovery of the monthly installments continuously either a loan or an advance before approving the no-pay maternity leave, such a procedure had not been followed with regard to the women officers of the Ministry who takes no-pay maternity leave.
<b>(b) Financial Regulation of Democratic Socialist Republic of Sri Lanka</b> -----		
(i) Financial Regulation 136	28,210,142	Even if the authorized officer should responsible the related supply will fall within the budgetary allocations in terms of Financial Regulation and although there were no provision made available for the Kegalle Teaching Hospital to purchase laboratory equipment due to the fact that the measures taken to place the order for the equipment and the Ministry had not provided funds thereon the payments could not be made for the equipment as at the date of audit.

(ii) Financial Regulation 761,306  
210 (1)

Whenever discounts are available, it is important to make the payments in advance in order to obtain the discounts due to the fact that the District General Hospital Polonnaruwa had failed to pay bills for 05 water meter readings in due dates in the year under review, the discount which could have been able to recover amounted to Rs.154,621 had been loss. Further, even though the service charges inclusive of 06 water meter readings amounted to Rs. 606,685 had been paid during the year under review, the reason for paying such service charges was not disclosed.

(iii) Financial Regulation 1,830,557  
571

No actions whatsoever had been taken in terms of the Financial Regulations with regard to the lapsed deposits of Rs. 1,830,557 in Ratnapura Provincial General Hospital.

**(c) Circulars issued by  
Ministry of Public  
Administration**

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(i) Section 1:3 of Circular  
No. 22/ 99 of 08 October  
1999

An officer above 60 years of age had been appointed to the post of Foreign Funds Coordinator without an approval of the Treasury and two vehicles had been provided in Contrary to circular provisions, for traveling to that officer .

(ii) Paragraph 02 of  
Circular No. 15/ 2001 of  
07 August 2001

According to the Circular, the Ministry had not used finger scan machines in hospitals and institutions under it. Since there are 35 signature registers for different posts instead of maintaining a common signature registers for the staff in many hospitals, a sufficient internal control over the arrival and departure of officers and employees had not been made.

**(d) Other Circulars**

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(i)The General Circular No. 165,750  
1887 of 02 December  
1995 issued by the

Although the cafeteria taxes of the hospital should be credited to government revenue, the taxes of the Kandy General Hospital Nursing School's cafeteria and mobile food sales vehicle taxes had

Director General of Health  
Services and Letter  
No. CA/ AQ / 1 / dated 30  
July 2004

- (ii) Circular of the Secretary of  
the Ministry of Health  
No. 01-21 / 2015 dated 28  
May 2015

**(e) Government Procurement  
Guideline**

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- (i) Guideline 1.2.1 (a)                      3,123,213  
and (b)

- (ii) Guideline 2.8.1 (b)

been credited to the Hospital Staff Welfare Society  
and the Buddhist Society.

The Director of the Kurunegala Provincial General  
Hospital, had taken over the food items from the  
contractor that could not be considered as  
substitutes without any recommendation in  
contrary to the Circular Provisions. Although the  
fish piece weight should weigh 60 grams for a  
normal patient and between 45 grams and 30  
grams for a child patient, 30 grams for a diabetic  
patient and 90 grams for a junior employee,  
according to the Circular, a piece of fish was  
weighed between 10 grams and 20 grams as per  
the physical examination carried out.

Even though actions should be taken to provide  
fair, equal and maximum opportunity for eligible  
interested parties to participate in Procurement and  
as a result of high quality and low cost to the  
maximum economic benefits, due to The Kandy  
General Hospital and Sirimavo Bandaranaike  
Specialized Children's Hospital had purchased the  
various items such as folding beds, garbage bags,  
tires and stationery from the State Trading  
(General) Corporation following a direct purchase  
that need had been omitted.

Although the technical evaluation committee  
should consist of an expert on subject matters, the  
technical officer who had been appointed to  
procure the air-conditioner equipment of  
Batticaloa Teaching Hospital had insufficient  
technical knowledge and qualifications and the  
calling for bids had not occurred impartially and  
justifiable manner because of all 07 suppliers were  
in the Ampara District and no bidders had been  
called from any of the recognized businessmen in  
the Batticaloa District.

(iii)	Guideline 3.5.1 (d)	2,953,013	Despite the necessary criteria had not met to follow the direct purchasing method, the cost for the garbage bags of the Sirimavo Bandaranaike Specialized Children's Hospital cost at Rs.1,136,500, the cost of the stationery and cleaning materials amounted to Rs. 1,816,513 for the general public in the direct purchasing system.
(iv)	Guidelines of 5.4.11 and 6.4.12 and Public Cash Circular No 364/3 dated 30th July 2002	11,342,612	The details of the VAT paid to each of the registered contractors and suppliers of VAT for work, goods and services should be informed to the Commissioner of Inland Revenue with a copy to the Auditor General on or before the 15th of that day, From the year 2013 to the 31st December 2017, the Batticaloa Teaching Hospital had not been informed during the period of 5 years. A sum of Rs.11,342,612 had been paid to contractors and suppliers registered for VAT for the year 2016 and 2017.

**2.20 Observations on purchasing of Medical Supplies such as Pharmaceutical, Surgical Equipment and Laboratory Equipment, Storage, Maintenance of Stock by the Medical Supplies Division**

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The following observations are made.

- (a) Even though the Cabinet of Ministers had decided that any medical supplies should not purchase without the recommendation of the Pharmaceutical Formulary Revision Committee, out of the 19,844 medical supply items available as of 31 December 2017, three thousand eighty six items were in use without the recommendation of the Pharmaceutical Review Committee.
  
- (b) Sixteen thousand six hundred thirty eight items of medical supplies had been used in the country by the year 2016 and it had increased to 19,844 items by 2017. Although the number of medical supplies consumed by many countries in the world is very low, this is being increased in the island by annual and as a result of that the medical supplies management had become a complicated situation. The matters such as non-establishment of an independent specification control unit in the Medical Supplies Division, not taking steps to identify the most consumable items by conducting studies, not meeting the Pharmaceutical Formulary Revision Committee as per the scheduled time, not developing timely specifications to determine the Recipe items, not taking steps to maintain a steady progress specifications, items including in the list introducing as a special item by making minor changes of specification of an item had affected for this.



- (c) Although issuing orders to the State Pharmaceutical Corporation with a 11 month supply period for the purchase of estimated items by the Medical Supplies Division had been the policy the State Pharmaceuticals Corporation, it had failed to provide medical supplies without delay. The total number of items ordered for Medical Supplies relating to the year under review was 6,154 and the State Pharmaceutical Corporation had not provided 3,527 items or 57 per cent out of that. Due to this delay, medical supplies had been purchased from the local market with a very high cost each year. The total cost of medical supplies purchased only from the local market during the year under review was Rs. 4,224 million. An additional cost of Rs. 191.7 million had incurred only in the year 2017 due to purchase of medical supplies from local market and the total additional cost incurred during the period from the year 2007 to 2017 was Rs. 5,358 million.
- (d) Due to the main order relevant to Fluticasone Propionate 250 mcg with Salmeterol drug required to the patients with respiratory diseases had not been received in due time in the year 2017 from the State Pharmaceuticals Corporation since that drug was purchased from locally ,the additional cost had to be paid was Rs.9 million.
- (e) The domestic market prices of certain drugs had increased unusually more than the price of the State Pharmaceutical Corporation.
- (f) Even though failure to submit orders with a sufficient supplies time period by the Medical Supplies Division, the delay in the procurement process of the Ministry, the delay in the procurement process of the State Pharmaceutical Corporation or supplier delays had caused the delays in drug supply despite a mechanism had not been established to identify from which party the delay occurred, it was impossible to recover the additional cost of Rs. 5,358 million in accordance with the agreement that entered in to with the State Pharmaceuticals Corporation.
- (g) Even though the all local purchases made up to 31,October 2017 by the Medical Supplies Division had been entrusted to the State Pharmaceuticals Corporation from 01 November 2017 to prevent the shortage of drugs occurs, due to delays in the main order it had not been entered into with an agreement by including the conditions.
- (h) A sample testing method had not been introduced to check the quality of all medical supplies purchased by the State Pharmaceuticals Manufacturing Corporation to the Medical Supplies Division and sufficient laboratory facilities or staff had not been available as well. Without carrying out a quality inspection in respect of the medical supplies issued to the hospitals those had been sent to the quality tests laboratories only at the instances in case of problems subsequently reported.

- (i) Due to lack of a pre - sampling tests carried out before issuing the obtained medical supplies to the patients a significant number of medical supplies had been identified later on as failed though it could not be identified previously to that . The cost of drugs which had failed the quality tests only during the year under review was Rs. 613 million.
- (j) The suspension or removing from use of Medical Supplies which fails the quality tests are being done by circulars issued by the Medical Supplies Division to hospitals based on quality test reports issued in respect of the drugs by the National Drugs Quality Control Laboratory and it is expected to suspend the handing over of the substandard, low quality drugs by that. However, the related objective had not been achieved due to the capacity of the drug quality control laboratory is insufficient, taking a long time for testing activities, being high in the number of samples that should be tested because of increase of the number of the drug items purchased and the delays in issuing of circulars of with regard to the failing of the quality tests of medicinal products , when the drug was found to be failed the quality test , significant percentage had been released to patients.
- (k) The total expenditure of 55 categories of medical supplies withdrawn due to being failed the quality tests was Rs. 568 million in the year under review and within that there were antibiotics, the drugs provide for cardiovascular, neurological drugs and antimicrobial drugs, as well as bandages and surgical instruments for its 11 varieties. It was revealed in audit test checks out of the medical supply items, from 07 items of Rs. 85 million medical supplies, 05 items between 90 per cent to 100 per cent of the items had been totally issued to the patients even when there were orders to remove medical supplies which had failed the quality tests as such from the usage . Accordingly, it was revealed that these drugs had failed the quality tests after issuing these drugs to patients.
- (l) Whilst the removal of the Amoxicillin Oral Suspension BP 125mg cost at Rs. 26,444,250 on 06 February 2017 and on 20 April 2017, the shelf-life of that had completed and out of this, 99 per cent of the stock of the drugs issued to the hospitals at a cost of Rs. 26,172,655 had been totally released to the patients.
- (m) Whilst the removing of the cost of the vaccine Meropenem 1g cost at of Rs. 33 million was removed from usage on 19 May 2017 , the entire stock of drugs had been completely released to the patients.
- (n) Even though actions were taken to recover the cost of stock of drugs failed the quality test and the 25 per cent of administrative expenses from the suppliers, and to prevent delivery of low grade, low quality drugs to patients was failed and it was impossible to provide a higher level quality, productive and sustainable health service to the Sri Lankan population that the Primary Mission of the Ministry .

- (o) Without using the computer system to issue the Withhold Orders for the quality test failed medical supplies order in the year 2017, had been informed only in the Circulars. In 85 cases of quality tests failed medical supplies, 27 cases the medical supply Withhold Orders had been sent to relevant hospitals and institutions after the period from 10 days to 69 days. Although the comments were made to the audit on 30 September 2016 as there would not be delays in issuing Circulars in future because of the next process is being functioned from complaining about quality test failed items to the suspension of issuing of the quality test failed drugs through the PRONTO Computer System , Since then about 2 years have passed, the PRONTO Computer System had not been used to issue orders in respect of quality test failed drugs.
- (p) Due to the delay in further investigations in respect of 04 Medical Supplies items which were withhold in the year under review it was revealed when examining a sample of 18 medical items that the 04 items had expired.
- (q) Even though the 05 categories of medicinal drugs cost at Rs. 39 million purchased from local markets by the medical supplies in previous years had failed the quality tests in the current year, steps had not been taken to recover the loss from the supplier.
- (r) Even though the Cabinet of Ministers had decided on 13 December 2012 to recover the cost of stock of drugs which had failed the quality test and the 25 per cent of administrative expenses from the suppliers, drugs only Rs.1,022 million out of the total cost of the quality test failed drugs during the 07 year period from 01 January 2011 to 31 December 2017 amounted to Rs. 3,942 million had been levied from the State Pharmaceuticals Corporation by the Medical Supplies Division only Rs. 514 million had been charged from the suppliers by the Corporation. Similarly, the amount due from the State Pharmaceuticals Corporation during the 08 years period from 2010 to 2017 was Rs. 748 million.
- (s) Because of the actions had been taken to recover from the suppliers calculating that considering as only the cost of the stock in hand after issued to the patients instead of the cost of the total stock that quality tests failed when calculating the value of the quality tests failed medical supplies up to the year 2016 a loss of about Rs. 2,000 million had occurred.
- (t) Even though the Medical Supplies Division should hold a 03 months Buffer Stock, 7,223 medical supplies categories as at 09 June 2017 and 5,601 categories of medical supplies which had not met that requirement had remained and measures had not been taken to maintain stock levels for any medical supplies by 13 June 2018 .
- (u) It was revealed at a sample audit test checks carried out in respect of 28 essential drugs, out of 98 essential drugs that the stock balance of 11 essential items were zero at the

Medical Supplies Division and the hospitals by 12 June 2017. The medicines for Kidney Disease, Urinary Infections, Joint Disorders, Respiratory Diseases and for the Wounds were included in this .

- (v) According to a sample taken from the Pronto Computer System, due to the shortages stocks of drugs at the stores of the Medical Supplies Division, which were essential and non - essential in frequent time period of the years 2017 and 2018, the drugs had been purchased from the local markets at a much higher price than the State Pharmaceutical Corporation incurring a sum of Rs. 167 million by 09 hospitals. A methodology had not been identified to recover the additional cost occurs to be spent due to purchase drugs from local markets.
- (w) It was confirmed at the physical examination carried out on 10 May 2018 because of the lack of space in drug stores a lot of valuable medical supplies were not undertaken from the transport service provider and placed in the corridors in front of the store, and after having spaces, they were taken over to the stores and Goods Received Notes (GRN) had been issued and 05 items including 03 stock items cost at Rs. 28 million had been kept in the corridors in front of the warehouses from 6 days to 7 months . Even though the above mentioned medicines should be kept at temperatures above 30 Degrees of Celsius those had been stored in the ground floor with a temperature of more than 30 Degrees of Celsius at the ground floor and the corridors without even a fan .
- (x) As a result of non - preparation of estimates correctly, non- modification of the specifications timely, not studying with regard to the slow moving items, it had occurred to face an overstock condition and Therefore, it was revealed that the reason for 02 items that were not taken to the warehouse delayed to issue GRN between 02 to 08 months after receiving the stock. It was observed the half –life of the drug stock is being shortened, delivery of drugs to the hospitals would be delayed and receiving the large portion of stocks to hospitals more likely to cause an expiration of drugs due to not issuing GRN without undertaking to the store and had left for months after receiving the stocks.
- (y) In accordance with the agreement entered into the repairs of the air conditioning system that had been inactive in operation for several years the repairs had to be completed by the month of October 2016, though about 1 ½ years had passed the repair of inactive air conditioning system could not be able to complete. There were pharmaceuticals stocks worth more than Rs. 8,000 million at 33 stores of the Medical Supplies Division by 31 July 2018 and not maintaining at the prescribed temperature was a direct factor in reducing the quality of drugs . It was observed at the audit test check carried out on 10 May 2018 inside the warehouse, in 21 items including 08 medicinal items worth of Rs. 24 million showed out of the pack as that should be kept at a temperature of less than 25 degrees of Celsius but had been kept in stores with temperature above 25 Degrees of Celsius. Besides the issued portion to the hospitals from the relevant value of the remained stock had remained at the temperature between Degrees of Celsius 29.5 to 31.9 and the period of time not

fixed at that particular temperature was between 8 days to 425 days (01 year 02 months) . Within these drugs, the medicines needed for the diseases such as cancer, kidney disease, high blood pressure, and the drugs and pain killers needed for the respiratory diseases such as fit.

- (z)** Certain drugs that should be transported at temperatures below Degrees of Celsius Degrees 25 had been transported by the State Pharmaceuticals Corporation to the Medical Supplies Division at normal temperature and since lack of enough space in the cold storage and as there was a need to prevent medicines shortages the Medical Supplies Division had obtained the stock in the same manner and had stored in normal storage. In this case, if the drugs are damaged the that stock could be able to reimburse, even if the related stocks were accepted by the Medical Supplies Division, as the medicines were not stored at the prescribed temperature, the effects on the quality of medicines had been neglected.
- (aa)** Most of the medicinal storages were functioned without the prescribed temperatures in the Medicine Supplies Division which provides drugs to all Government hospitals in the country , most of the divisional medical supplies centres and hospitals .
- (ab)** Six items of medical supplies items at a cost of Rs. 8 million had expired in the Medical Supplies Division during the year under review. Because of two types of drugs cost at Rs. 6 million out of that on the purchased with a short shelf-life , prior to the completion of delivery, had expired at the medical supplies section. Even though a certificate had been obtained to recover the damage caused to one item from the supplier, and also out of this drug including the values of the expired drugs in hospitals the sum of Rs. 8 million had not been recovered yet though over a year had elapsed.
- (ac)** During the 03 years from the year 2015 to September 2017, the total cost of expired medical supplies remained at the Medical Supplies Division and the hospital and the Divisional Medical Supply Centres under the Ministry amounted to Rs. 1,122 million. Medical supplies had been expired due to the reasons such as delays in the quality tests of medical supplies, purchase of supplies which were about to expire, less use of medicines and the station transfers of doctors.
- (ad)** Out of the approved 713 posts, 256 posts of the Medical Supplies Division had been in vacant as at 31 December 2017 and it was observed that the being vacant of the 06 Assistant Director (Medical Supplies) posts as of, 12 Fork Lift Operators, 23 Information and Communication Technology Officers, 62 Assistant Medical Officers posts , 26 in post of Packer and 56 Store Keepers was an obstacle for the medical supplies process to be conducted efficiently and effectively.

## 2.21 Expiration of Thyroxin Drug

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Out of the 50mcg Thyroxin drugs purchased from the State Pharmaceutical Corporation by Medical Supplies Division to distribute to government hospitals relating to the year 2016 for patients suffering from Thyroxin deficiency cost at Rs. 18,154,423 , a number of 4,332,950 tablets cost at Rs. 2,810,709 as such or 15 per cent of the total portion had been expired. From the expired stock 1,383,100 pills cost at Rs. 896,940 had expired within the stores itself of Medical Supplies Division. Even though a number of pills 1,865,200 cost at Rs. 1,209,582 had been distributed to the Regional Medical Supplies Divisions (RMSD) whilst those were about to expire, the entire stock had expired within the Regional Medical Supplies Divisions. In addition to that a number 1,084,650 pills cost at Rs. 704,187 distributed to 15 Provincial Council Hospitals had expired in those hospitals. The following observations are made in this regard.

- (a) As per the terms and conditions 2.2 of the Bid Documents , although it should last for 24 months while receiving a drug in to the island, the 50mcg Thyroxin drugs which had about only 14 months of Shelf-life had been purchased .
- (b) The responsible officers of the Medical Supplies Division had not obtained any certificate from the State Pharmaceuticals Corporation to minimize the loss which would cause by the expiration of this medicine which had short term shelf -life.
- (c) This stock of drugs dispatched by the State Pharmaceutical Corporation had been re-dispatched and sent to the transport supplier's premises due to an urgent maintenance work and lack of sufficient space . As a result of the Medical Supplies Division did not have an adequate and proper programme for the distribution of this drug , actions had been taken to retain them in idle in the transport supplier's premises about 05 months period and to pay a sum of Rs. 617,000 as well as the storage rent and late charges.
- (d) The shelf -life of the above mentioned returned 27,995,900 stock of tablets cost at Rs. 18,154,423 was about 08 months and 11 days while undertaking by the Medical Supplies Division again. Accordingly, it had been impossible to complete the distribution of 28 million tablets within a short time period such as 08 months .
- (e) Despite these stocks remained about to be expired within the premises of the Regional Medical Supplies Division (RMSD) and in the hospitals covered by the PRONTO System existing in the Ministry, even though the Medical Supplies Division was free from the responsibility by avoiding the expiration a large number of stock in the stores in Medical Supplies Division by distribution to those hospitals and institutions whilst the remaining period to be expired were between 02 and 03 months, this item had been disposed of and taken out of the books without recovering from the officers in charge of the Medical Supplies Division responsible for this loss.

- (f) Above mentioned drug with a short term shelf -life had been issued to the Provincial Council hospitals which were not covered by the PRONTO Computer System by the Regional Medical Supplies Divisions (RMSD) even if there was only one day to be expired .
- (g) Due to alternative measures made to complete the distribution of this stock which would expire on 30 June 2017, the 603,300 tablets valued at Rs. 766,087 had expired only in 03 hospitals and institutions with respect to the other batches of Thyroxine 50 mcg and the batches of Thyroxine 100 mcg .
- (h) Although the annual estimate of this medicine for the Homagama Base Hospital was 600,000, as it was estimated at 6,000,000 erroneously, due to the Medical Supplies Division had provided 1,100,000 tablets , 568,000 tablets cost at Rs. 368,348 had expired in that hospital.
- (i) Due to undertake the stocks with a short term shelf -life they were expired, due to storage and late payments made for them and the medicines in other categories were being expired whilst the distribution of the short term shelf -life stock, the total loss occurred to the Government was Rs. 4,164,168 .
- (j) This item could have expired in stores, wards and clinics in other provincial hospitals that were not covered by the audit inspection, and the loss could have been more higher if the cost of them was calculated.

## 2.22 Human Resource Management

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### 2. 22. 1 Approved Cadre, Actual Cadre and Expenditure for Personal Emoluments

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The details on approved cadre, actual cadre, vacancies and the excess cadre as at 31 December 2017 to execute the functions as mentioned in Paragraph 2.1 of the above are given below. The Ministry had incurred a sum of Rs. 64,271 million for Personal Emoluments expenditure category for the year under review. Accordingly, the Per Capita Expenditure had been Rs. 889,306 .

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess Cadre
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(i)	Senior Level	15,586	13,615	1,971	-
(ii)	Tertiary Level	35,237	28,561	6,676	-
(iii)	Secondary Level	5,708	3,840	1,868	-

(iv)	Primary Level	30,925	22,555	8,370	-
(v)	Other ( Casual / Temporary/ Contract Basis )	73	3,700	-	3,627
	<b>Total</b>	<b>87,529</b>	<b>72,271</b>	<b>18,885</b>	<b>3,627</b>

The following observations are made in this regard.

- (a) A number of officers 3,422 employed excessively and the salaries had been paid exceeding the approved cadre relevant to each hospitals and institutions , 481 officers pertaining to 6 posts of Senior Level , 194 officers pertaining to 24 posts of Tertiary Level , 86 officers pertaining to 14 posts of Secondary Level and 2661 officers pertaining to 25 posts of Primary Level .
- (b) There were 2,452 vacancies pertaining to 34 positions of Senior Level, 6,870 vacancies pertaining to 95 posts belonging to the Tertiary Level, 1,954 vacancies pertaining to 50 positions of the Secondary Level and 11,031 vacancies in relation to 60 posts belonging to the Primary Level had remained as compared to the approved cadre of each of the hospitals and institutions.
- (c) A number of 3,627 Casual / Temporary / Contract basis employees belonging to Primary Level were recruited exceeding the approved number of employees without the approval and the salaries had been paid .
- (d) The approved cadre of the Medical Officers at the Senior Level as at 31 December 2017 was 12,889 and thus the actual number was 11,129, the number of vacancies were 1,760. Despite 2,078 vacancies remained at medical officer posts in 71 hospitals in the 09 Provinces, the total number of 317 Medical Officer posts had been maintained in excess as 181 Medical Officer posts in 28 urbanized hospitals in the Central, North Western, Southern and Western Provinces and 136 Medical Officers for the Training of Postgraduate Medical Science Degree.
- (e) The approved number of Specialist Medical Officer posts pertaining to Senior Level under 44 different subjects as at 31 December 2017 was 1,464 and thus the actual number was 1,446 ,the number of vacancies were 18 . The staff had been established in order to create 139 vacancies in 37 hospitals and institutions and an excess in 121 posts in 32 hospitals and institutions whilst the deployment of the these Specialist Medical Officers among hospitals and institutions.
- (f) The vacancies of 24 medical officers posts in 4 hospitals and institutions in the Western Province had been maintaining completely in vacant manner without taking actions to be filled since two years .



- (g) Notwithstanding the transfer orders of the year 2017 issued on 29 June 2017, seven hundred forty four medical officers had not reported to the specified work stations according to transfer orders received to them even by the end of March 2018 .
- (h) The Ministry had not taken actions to work out the number of Doctors should be existed in specialized according to each expertized, based on the national requirement of the country and a Scheme Of Recruitment of Medical Postgraduate Training had not been prepared considering the number of vacancies in each posts of Specialist Medical Officers field when referring the Medical Officers for the Training on Medical Postgraduate Degrees as well .
- (i) Fifty one vacancies in administrative and financial areas such as Chief Accountant and Accountant posts, Additional Secretary posts, Assistant Secretary posts, Assistant Director posts, Chief Legal Officer, Biologist, Scientist and Bio Medical Engineering had remained in vacant during the year under review . Twenty five posts out of that remained in vacant during the past two years as well. Accordingly, the necrssity of these posts should be reconsidered.
- (j) A Legal Officer in charge of Grade II had been appointed for acting post of the Chief Legal Officer without the approval of the Appointing Authority by the Secretary to the Ministry of Health in Contrary to Paragraph 13.1 (b) of Chapter II of the Establishment Code and though a 5 years had elapsed, actions had not been taken to fill that post.
- (k) The duties of the Director of the Kurunegala General Hospital were being covered up by the Deputy Director from the month of October in the year 2015 . Due to the vacancy exists in the post of Director, maintaining of the administrative functions properly in the hospital and the implementation of the Master Plan of the hospital was at a problematic condition.
- (l) Instead of taking actions to appoint a permanent officer to the post of Principal of the Nursing school in Kurunegala from 18 January 2017 a Nurses Training Officer in Special Grade had been appointed to cover the duties of that post.
- (m) The following matters were observed during the audit test checks carried out at the Matara General Hospital in respect of implementing the Annual Transfer of Medical Officers.
- (i) The final list of the annual transfers to be implemented from January 2017 had been published on 30 June 2017 and at the examination conducted in respect of the officers consisted in that final document it was observed that 25 officers who had to move to another place on transfer orders had not followed their transfer orders until 17 May 2018 as at the date of audit.

- (ii) As per the information submitted to the audit, it was observed that 20 Medical Officers who had arrived at the Matara General Hospital on the annual transfer orders of 2017 had not reported to the Matara General Hospital until the date of audit.
- (iii) According to the annual transfers of the year 2016, the three doctors who should have been released from the Matara General Hospital had not been released up to the date of audit and 14 doctors who should have attended to the Matara General Hospital had not been reported to the Matara General Hospital until the date of audit.
- (iv) It was observed that three doctors who were transferred to the other hospitals from Matara General Hospital under the annual transfer orders of 2015 were occupying at the Matara General Hospital up to the date of audit.
- (v) The name of a doctor who had reported to work at the Matara General Hospital on 25 October 2012 had been incorrectly included in the year 2014 annual transfer order list. A transfer order had not yet received again to that officer until the date of audit.
  
- (n) The Five Carpenters for the Carpentry Section of the Kurunegala General Hospital were vacant and the Staff Assistants of the hospital had been deployed for this purpose and vacancies existing in posts of 06 Cooks, 08 ECG Recording Officers, 06 Electrical Technicians, 11 Radiologists and a Mental Therapist for the mental medical treatments had affected the proper achievement of those sections .
- (o) Without taking actions to get approvals for the 06 posts of staff as 01 post of Clinical Nursing Consultant, 01 post of Library Assistant and 04 posts in the Health Care Assistants (Casual) had been deployed without obtaining any approval in the Kurunegala Nursing school .
- (p) There were 14 vacancies in the posts including 01 Cook, 01 Health Sector Driver, 01 Custodian Post, 01 Librarian, 09 posts of Grade One Nursing Instructors and the Principal posts in Kurunegala Nursing school .