

## **Covid-19 Emergency Response and Health Systems Preparedness Project - 2020**

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The audit of financial statements of the Covid- 19 Emergency Response and Health Systems Preparedness Project for the first accounting period from 04 April to 31 December 2020 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 52 of the World Bank Report No. PAD 3852 dated 02 April 2020. My comments and observations which I consider should be reported to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreements of the Project, the Ministry of Health is the Executing Agency and the Project Management Unit (PMU) is the Implementing Agency of the Project. The objectives of the Project are to prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for public health preparedness in Sri Lanka. As per the Loan Agreements, the estimated total cost of the Project was US\$ 128.6 million equivalent to Rs.25,655.7 million and out of that US\$ 93.6 million equivalent to Rs.18,673.2 million was agreed to be financed by International Development Association and balance amount of US\$ 35 million equivalent to Rs.6,982.5 million was agreed to be financed by International Bank For Reconstruction And Development. The Project had commenced its activities on 04 April 2020 and scheduled to be completed by 31 December 2023.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, receipts and payments account and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## 1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

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### 2.1 Accounting Deficiencies

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<b>Accounting Deficiencies</b>	<b>Amount Rs.million</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a) Estimated cost for the medical supplies agreed to be supplied by UNICEF had been accounted as an actual expenditure without	5, 550.40	Agreed with the observation.	The cost should be accounted by confirming receipt of the goods and it is required to submit written evidences to the

	being ascertained the actual cost. Further, the evidence for the confirmation of receipts and issue of these medical supplies were not made available for audit.			audit confirming these costs.
(b)	Retrospective finance expenditure had not been debited to the relevant vote ledger. As a result, difference was observed between the expenditure shown in the financial statements and the vote Ledger. Accuracy of this expense could not be examined in audit as the payment voucher for this expense was not submitted for audit.	270.85	Agreed with the observation.	Expenditure should be accounted under the relevant expenditure vote and it is required to submit written evidences to the audit confirming these costs.
(c)	Recurrent expenditure relating to vehicle insurance had been capitalized.	2.58	Agreed with the observation.	This error should be corrected in financial statements prepared for the next year.
(d)	According to the report of the Department of External Resources, an advance of US\$ 22 million equivalent to Rs.4,224 million had been received to the project. However, it was shown as Rs.4.09 million in the Special (Dollar) Account. the difference was not reconciled.	125.69	Agreed with the observation.	-Do-
(e)	According to the reports of the Department of External Resources, US\$ 1.46 million equivalent to RS.270.78	0.076	Agreed with the observation.	-Do-

million had been reimbursed from January to April 2020 whereas according to the financial statements, the reimbursed amount shown as Rs.270.85 million. The reasons for the difference had not been identified and disclosed in the financial statements.

(f) Acknowledgements had not been obtained from the relevant payee for the payments made on 33 occasions during the period under review and acknowledgements had not been obtained for retention money and government revenue had been remitted to 7 hospitals on 56 occasions during the period under review.	42.40	Agreed with the observation.	It is required to submit written evidences to the audit confirming these costs.
(g) The foreign exchange loss for the period under review had been accounted as a current asset without being shown separately in the net assets.	2.28	Agreed with the observation.	This error should be corrected in financial statements prepared for the next year.
(h) The value of the equipment purchased by the Sri Lanka Army had been accounted as an expense for the period under review irrespective of the remaining stock as at 31 December 2020.	188.74	Disagreed with the observation. These remaining items will be used in future to provide smooth function in the Quarantine Centers and Intermediate Care Centers.	Expenditure related to the period should be clearly identified and accounted.
(i) The value of 03 free robotic magnetic bead-	-	Disagreed with the observation. One of the 03 free robotic	The value of these machines should be

based RNA machines had not been assessed and confirmed whether it has been included in the financial statements.

magnetic bead-based RNA machines is used in the Medical Research Institute. The other two machines were sent to Teaching Hospital Ratnapura and National Hospital Kandy.

assessed and accounted in the financial statements.

## 2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
Section 20 (1) of the Value Added Tax Act No.14 of 2002 and the Letter No.CGRI / 2019 / 03-01 (ins & cir) dated 09 July 2019 issued by the Department of Inland Revenue,	Value Added Tax amounting to Rs.3.390 million had been paid on 27 occasions without a formal tax invoice.	Agreed with the observation. As the suppliers had claimed for VAT with the VAT number and tax invoices these had been paid.	Value Added Tax should be paid on formal tax invoice and relevant information should be furnished as per the Act.

## 3. Physical Performance

### 3.1 System and Controls

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) Three double cabs purchased during the period under review at a cost of Rs.27.19 million and issued to three offices of the Medical Officer of Health had not been delivered to those offices by 28 September 2021.	Disagreed with the observation. Necessary action was taken to send the 4 double cabs which were used for the work of the Regional Directors of Health Services to the specified offices of the Medical Officers of Health.	These 03 vehicles should be delivered to the designated offices expeditiously.
(b) The Project had purchased 805 motorcycles at a cost of Rs.239.48 million and issued to the Public Health Inspectors. However, it had not been confirmed that a written agreement had been reached between the officers and the Ministry.	Agreed with the observation.	Agreements must be reached between the two parties.
(c) The Project had paid Rs.12.79 million for the purchase of building materials and equipment required for the construction of the Welikanda Covid 19 Treatment Center,	Disagreed with the observation. All the materials and equipment and other consumables purchased for the construction of the Welikanda COVID-19 Treatment	An engineering certificate should be obtained stating that all the materials purchased have been used for construction and construction

However, no confirmation had been obtained that all these materials had been used for the construction and construction had been completed to the required standard.

Center were used for the construction.

had been carried out to the required standard.

- (d) The project had paid Rs.5.45 million for obtaining electricity and Rs.4.5 million for obtaining water for a housing scheme established in the Ampara District. However, no written evidence was provided to ascertain whether the work was completed on time.

Action has been taken to get the required documents and evidences with regard to the transactions involved in these activities.

This information should be submitted to the audit.