

## **Additional Financing for the Covid -19 Emergency Response and Health Systems Preparedness Project - 2021**

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The audit of financial statements of the Additional Financing for the Covid- 19 Emergency Response and Health Systems Preparedness Project for the Accounting period from 23 July 2020 to 31 March 2021 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in Section 2.07 of the Standard Conditions for Grant Financing made by the International Development Association Out of Trust Funds dated 25 February 2019. 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 Grant Agreement of the Project, the Ministry of Health is the Executing Agency and the Covid 19 emergency Response and Health Systems Preparedness Project 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 Grant Agreement, the estimated total cost of the Project was US\$ 1.72 million equivalent to Rs. 411.45 million and it was agreed to be financed by International Development Association. The Project had commenced its activities on 23 July 2020 and scheduled to be completed by 31 March 2021.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 March 2021, statement of receipt and payment and its cash flows for the period 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 and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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**

### 2.1 **Non-Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non-Compliance</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
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.	Total amount of Rs 3.7 million value added tax had been paid on 20 occasions without a formal tax invoice. Further, information on value added tax paid to the contractors and suppliers in the project period had not been furnished to the Commissioner General of Inland Revenue and the project had paid Rs.549,824 as VAT without confirming whether the relevant institution or person is an active taxpayer.	As the supplier had claimed for the payment of VAT along with the registered VAT number and tax invoices, this has been paid. Actions will be taken to send the tax returns as soon as possible.	Value added tax should be paid as per the provisions of Act and tax reports should be forwarded to the Commissioner General of Inland Revenue.

## 3. **Physical Performance**

### 3.1 **Contract Administration**

#### **Audit Issues**

#### **Responses of the Management**

#### **Auditor's Recommendations**

(a) During the renovation of the ground floor of the residential building of the Health Promotion Bureau, two work items valued at Rs.233,346 had not been constructed to the required standard. This procurement had not been comply with the guidelines 2.12 (a), 2.11.2, 3.4.2 (a), 5.4.8 (a), 5.3.5 (b), 8.9.1 and 8.12.2 of the Government Procurement Guideline. Also the rate analysis of 20 additional works items valued at Rs.426,724 had not been recommended or approved by a responsible officer with technical knowledge related to this contract.	The Project Director has been instructed to strictly follow the Government Procurement Guidelines 2.1.2(a), 2.11.2, 3.4.2(a), 5.4.8(a), 5.3.5(b), 8.9.1, 8.9.1(a) 8.12.2 in order to avoid these mistakes and discrepancies in future.	Action should be taken to comply with the Procurement Guidelines.
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| <p>(b) Rate Analysis of 07 additional work items valued at Rs.493,399 related to the contract for modernization of kitchen and dining room of Mulleriyawa Nursing School had not been recommended or approved by a responsible officer with technical knowledge. It is observed during the physical examination conducted on 06 January 2022, an over payment of Rs.212,244 had been made.</p>   | <p>Actions will be taken to get the rate analysis recommended &amp; approved.</p>   | <p>Action should be taken to get the recommendation from the responsible officer.</p>  |
| <p>(c) In the three procurement works implemented by the Epidemiology Division at a total cost of Rs.18 million under the provisions of the project had not been comply with the Guidelines 2.12 (a), 5.4.8 (a), 5.3.5 (b), 8.9.1 and 8.12.2 of the Government Procurement Guidelines. Also the rate analysis of 36 additional work items valued at Rs.2.1 million had not been recommended or approved by a responsible officer with technical knowledge.</p> | <p>The Project Director has been instructed to strictly follow the Government procurement guidelines 2.1.2(a), 2.11.2, 3.4.2(a), 5.4.8(a), 5.3.5(b), 8.9.1, 8.9.1(a) 8.12.2 in order to avoid these mistakes and discrepancies in future.</p> | <p>Action should be taken to comply with the Procurement Guidelines and get the recommendation from the responsible officer.</p> |

### 3.2 System and Controls

#### Audit Issue

#### Responses of the Management

#### Auditor's Recommendations

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| <p>(a) There were no written evidences such as Good Issuing Note and Good Received Note to prove that the Medical equipment, Machinery and Equipment and Furniture purchased for Rs.89 million were issued or received to hospitals and health institutions on 68 occasions during the period under review. Also, those assets had not been formally transferred at the end of the project.</p> | <p>Actions will be taken to get the assets transferred formally at the end of the project.</p>  | <p>These assets should be duly transferred.</p>  |
| <p>(b) The equipment purchased at cost of Rs.71.2 million and construction and renovation works implemented at cost of Rs.34.3 million by the project during the period under review had not been accounted under non-financial assets in the financial statements of the Ministry of Health.</p>   | <p>Due to the non-implementation of CIGAS program in the project, the equipment purchased and construction works had not been accounted under non-financial assets in the financial statements of the Ministry of Health. Actions will be taken to implement the CIGAS system in the project.</p> | <p>The value of assets should be included in the financial statements of the Ministry.</p> |