

## **Health System Enhancement (Additional Financing) Project - 2021**

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The audit of financial statements of the Health System Enhancement (Additional Financing) Project for the period from 17 November 2021 to 31 December 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 the Loan and Grant Agreements No.L4121 – SRI and No.G9222 – SRI dated 07 October 2021 respectively entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 and Grant Agreements, the Ministry of Health is the Executing Agency and four provincial councils of Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agency of the Project. The objectives of the Project are meet the funding shortfall due to above reallocation to implement the original scope of the original project, meet further increasing demands, due to the ongoing third wave of COVID - 19 pandemic management, support developing of at least one secondary care facility (including for COVID-19 case management) in each of the original nine project districts that will be developed as the cluster apex hospitals, expand the facilities available for distance and e-learning, given the rising COVID-19 situation in the country, extend the project closing date by 24 months, or up to November 2025 to successfully implement and achieve the outcomes of the scaled up project and access the Japan Fund Poverty Reduction for a grant of US\$ 3 million to meet the COVID-19 related financing gaps. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 123 million equivalent to Rs.24,538.5 million and out of that US\$ 113 million equivalent to Rs.22,543.5 million was agreed to be financed by Asian Development Bank. The balance amount of Rs 1,995.0 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 17 November 2021 and scheduled to be completed by 30 November 2025.

### **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 December 2021, statement of expenditure and its cash flows for the period then ended in accordance with Sri Lanka 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 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. Physical Performance**

**2.1 Contract Administration**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
<p>The following observations are made regarding the award of contracts to suppliers for the purchase of 4,400 items of 19 types of medical equipment at a cost of Rs.2,328 million.</p>		
<p>(a) These procurements were made contrary to the Guidelines 2.10.1 (c), 2.11.2, 2.12 (a) and 8.9.1 of the Government Procurement Guidelines, the provisions of sub section 6 (i) (a) of the Public Contract Agreement Act No. 03 of 1987 and the bidding conditions of No. 35.41 (f), 35.41 (h) and 35.41 (c). As a result, the transparency and formality of those procurements were not protected.</p>	<p>All these procurements have been done according to the second paragraph of the procurement guideline of the Ministry of Finance, Economic and Policy Development.</p>	<p>The activities of the project should be carried out in accordance with the rules and regulations.</p>
<p>(b) As the requirement was not properly identified and procurement was not planned, 1,546 items of 15 types of medical equipment purchased were remained in store until as at 27 April 2022. Also, the ability to bid was limited by mentioning that there is an urgent need and bidding only from ex-stock existing registered suppliers. However, due to 1,546 medical equipment items remained in the store, there was no confirmation that such an urgent need existed.</p>	<p>The exact number of equipment could not be predicted, After distributing the majority of the equipment for all hospitals and the ICC Centers, the balance quantity of the equipment is still available in the BES stores and will be distributed for the future requirement of the hospitals.</p>	<p>Urgent requirements and procurement method should be correctly identified and the Equipment should be purchased accordingly.</p>
<p>(c) The standard specifications published on the Biomedical Engineering Services Division website have been revised in the purchasing of 1,725 items of 11 types of medical equipment and acceptable reasons and obtained approvals were not submitted for audit. Due to a biase revision of a specification as only one bidder can fulfilled in the purchasing of Defibrillator 50, the loss due to non-awarding of the contract to the lowest bidder who had fulfilled all the other specifications and requirements was Rs. 37 million.</p>	<p>There are bidders who could comply the specifications given in the bidding document, but they have not participated for this procurement.</p>	<p>The procurement process should be done in a transparent manner.</p>

- (d) Bids were made with false information such as the availability of stock or a delivery schedule could be provided and delivered accordingly and the goods were delivered with significant delays in the procurements for purchase of 50 Defibrillators, 35 Portable X- Ray machines, 135 Suction Apparatus, 325 High Flow Nasal Oxygen machine, 10 Ventilators ( Neonatal) which were bidding only from registered suppliers who have Ex-stock for emergencies and following the shopping method. Due to the high demand for medical equipment during this period, private donors had purchased these stocks from suppliers donated them to the health system. Therefore, the Ex-stocks were not available with the suppliers. Action should be taken against suppliers who submit false information.
- (e) Out of bidders who bid for the supply of 35 Portable X-Ray machines, only 20 machines were awarded to the bidder who qualified and submitted the fourth lowest bid and the eighth lowest bidder was awarded a contract for 15 machines. Although the supplier who had awarded the contract for the supply of 15 machines had agreed to supply 05 machines immediately after receiving the order and 10 machines within 02 weeks, the machines were delivered after a delay of 70 days. The loss was Rs.37.7 million due to the selection of the supplier on the basis of such incorrect information and the failure to award the contract of 35 machines to the qualified minimum bidder who awarded the contract of 20 machines. A fine of only Rs.4.4 million was levied from the supplier for delaying the supply of equipment by submitting false information. Fines have been deducted as per the conditions of the bidding document. The full loss should be recovered from the supplier who submitted the false information.

## 2.2 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the Central Bank Statements submitted for audit, the project was financed by US\$ 12.06 equivalent to Rs.2,434.46 million as at 31 December 2021. However, out of this amount only US\$ 9.93 equivalent to Rs.1,996.37 million was utilized for the project. Accordingly, an amounting to US\$ 2.13	The Project was effective from 17.10.2021 and funds were allocated for the reimbursement expenditure incurred by the Ministry of Health to procure medical equipment for a period of 12 months prior to the effective date. A total amount of Rs.2,434.46 million has been financed in accordance with the procurement list given by the Bio Medical Engineering Unit of the	The project should be implemented as planned.

equivalent to Rs.438.09 million representing 17.99 per cent had not been utilized for the project.

Ministry of Health. However, when the payments had to be released, some of the documents submitted by the Bio Medical Engineering Unit were not qualified for the payments.

(b) According to the Project Administration Manual submitted for audit, the planned financial performance for the period under review was US\$ 13.88 million. However, the actual financial performance was only US\$ 9.93 million equivalent to 71.54 per cent.

These procurements have been carried out by the Bio Medical Engineering Unit and the donor had to take considerable time to get clarification from relevant parties and grant final approval for the reimbursement. According to that actual financial performance was US\$ 9.93 million, equivalent to 71.54 percent.

The project should be implemented as planned.