

Health Systems Enhancement Project - 2023

The audit of the financial statements of the Health System Enhancement Project for the Year 31 December 2023, 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 Agreement No. 3727-SRI(COL) and No. 0618-SRI (SF) dated 26 October 2018 respectively entered in to 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

According to the Loan and Grant Agreement, the Ministry of Health is the Executing Agency and four provincial councils of Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agencies of the Project. The objectives of the Project are improve, efficiency, equity and responsiveness of the primary health care system based on the concept of providing universal access and continuum of care to quality essential health services. As per the Loan and Grant Agreements, US\$ 50 million equivalent to Rs 7,125 million comprised with US\$ 37.5 million equivalent to Rs.5,813 million as concessional loan and US\$ 12.5 million equivalent to Rs. 1,938 million as grant respectively had been agreed to be provided by the Asian Development Bank. The project commenced its activities on 01 December 2018 and scheduled to be completed by 30 November 2023.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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

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

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 skepticism 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 the project's internal control.
- 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

Reference to the Laws Rules and Regulations	Audit Issue	Management Response	Auditor's Recommendation
The Section 4.2.3 of the Government Procurement Guidelines	According to the procurement plan, the procurement of the Ultrasound scanner High end Machine for Dambulla General Hospital should have been completed by the second	The priority for the procurement of essential medical supplies in the latter part of the year 2022 and early part of the year 2023 from the repurpose funds and the	should be complied with Procurement Guidelines

quarter of 2023. However originally planned packages even though there was a delay were delayed due to this of 11 months from the period reason. mentioned in the plan, the procurement process was not completed.

3 . Physical Performance

3.1 Contract Administration

Audit Issue	Management Response	Auditor's Recommendations
According to the procurement terms (Terms of Reference), the period of actual consultancy service should be from March 2023 to June 2024 (15 months). however by the date of audit, no consulting firm had been selected for the construction of the complex for the National Institute of Infectious Diseases	Expression of Interest were called for the consultancy work of the supervision of construction of new laboratory for National Institute of Infectious Diseases (NIID)and for the balance supervision work of the civil works of the four provinces. The proposals were called for the balance of the supervision work of the civil works of four provinces and after technical evaluation, price proposals were opened and evaluated by the Cabinet Appointed Consultancy Procurement Committee The prices were higher than the estimated cost and decided to hold the procurement process of the consultancy work due to lack of funds and to consider the other options available for the consultancy work.	Action should be taken to commenced the activities in due time.

3.2 Matters in Contentious Nature

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	Rs. 48.6 million was estimated for the purchase of 18 portable Ultrasound Scanners for hospitals in Uva, Sabaragamuwa, North Central and Central Provinces. For this, the first bids were canceled and then the lowest bid as per the second called bids was Rs. 88 million or 81 percent more than the estimated price. Furthermore the number of machines purchased was increased to 22. However the reasons for canceling the tenders called for the first time were not submitted to the audit.	The project unable to obtain Asian Development Banks concurrence for the package before the bid validity expiry date. Therefore, the package was cancelled and approval has been obtained for rebidding from the Asian Development Bank. The quantity was increased to cover the requirements of the Apex hospitals and we were able to cover the extra cost of the package from the rupee gain due the depreciation of the rupee against the United States Dollar	The procurement should be done within the allocated limit.

- (b) 09 vans had been purchased at a cost of Rs. 87 million in the year 2021 for the purpose of awareness of public health, however since the public address devices that should be installed in those vans were not purchased, the vans were not used for the purpose they were purchased and were used for other purposes.
- The use of these vehicles for the intended purposes are beyond the control of the project only the Ministry of Health and Provincial Health authorities could ensure the use of the vehicles to achieve the desired objectives.
- The assets should be acquired for intendant purpose.