

Emergency Assistance of USD 100 Million for the Procurement of Essential Pharmaceuticals and Medical Supplies Project - 2024

The audit of the financial statements of the Emergency Assistance of USD 100 Million for the Procurement of Essential Pharmaceuticals and Medical Supplies Project for the year ended 31 December 2024, 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 Schedule 2 Section II(b)(3) of the Loan Agreement No.L0081A and the Loan Agreement No.L0124A dated 25 April 2019 respectively entered in to between the Democratic Socialist Republic of Sri Lanka and the Asian Infrastructure Investment 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 Agreement of the Project, the Ministry of Urban Development and Housing and Ministry of Defense are the Executing Agency and After Restructuring, the Ministry of Health is the executing Agency and Health System Enhancement Project is the implementing Agency of the Project. The objectives of the Project are support for the import and purchase of critical medicines and other medical supplies including lifesaving drugs, vaccines, surgical and therapy consumables medical equipment and laboratory re-agents. Consultancy service and technical assistance to support to procurement activities monitoring and evaluation and project management may also be financed. As per the restructuring Loan Agreement the estimated total cost of the project was US\$100 million, as US\$70 million from Colombo Urban Regeneration project and US\$ 30 million from Reduction of Landslide Vulnerability by Mitigation Measures Project, US\$100 million equivalents to Rs. 35,000 million was agreed to be finance by Asian Infrastructure investment Bank. But estimate cost reallocated as US\$ 60 million equivalent to Rs.18,000 million. The project had commenced its activities on 18 July 2022 and scheduled to be completed by 31 December 2025.

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 2024, the statement of expenditure and its cash flows for the year 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 the 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 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 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	Response of the Management	Auditor's Recommendation
Finance Regulation No. 138	The expenditure should be certified in respect of every payment, but the Finance Manager had made payments of Rs.31,707,772 without certified.	The four payments stated in the report were not certified by the accountant due to an oversight.	Financial regulations should be followed.

3. Physical Performance

3.1. Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The Estimate of Rs.137 million had been allocated to purchase the Human Anti D (Rho) Immunoglobulin 300 mcg/1.5mlvials-(SR 00602801)15,000. However 2 nd bid value of Rs.270 million had been accepted exceeding the estimate of Rs.137 million.	This drug was supply by a different supplier in 2024 from a Switzerland manufacturer. Therefore, considering the time difference and country of origin, awarded price is restrained reasonable by the Project Procurement committee.	Action should be taken to prepare correct estimate

- (b) An amount of Rs. 114.0 million had been estimated to purchase 90 units of Digital Cholangio-Pantreatoscope, access and delivery catheter (SR 15320101) and 90 units of Biopsy Forceps Compatible with Cholangio- Pantreatoscope, Spy bite type or similar (SR 15320102). Only one supplier had submitted the quotation valued Rs. 161,820,000 for the item No 01 and Rs. 20,250,000 for the item No 02. The approval had been granted by the procurement committee held on 5 July 2024 based on the report of, Technical Evaluation Committee held and the agreement had been entered on 18 July 2024. The following matters were observed in this regard.

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| <p>i. Although the estimate for this procurement was Rs. 114 million, the bid submitted was Rs. 182.07 million. As a result, it was an increase of Rs. 68.07 million than the estimate. However, due to the reduction in the number of units by 20, the bid was Rs. 141 million and accordingly, the exceeding of the estimate was Rs. 27.61 million.</p> | <p>There is no provision in the National Procurement Guidelines or Banks Interim Operational Directive to refrain from awarding if the awarding amount exceeds the cost estimates.</p> | <p>Action should be taken to prepare correct estimate</p> |
| <p>ii. Although this procurement should be completed in 43 weeks as per the procurement schedule, a period of 68 weeks had been spent for that.</p> | <p>No comments.</p> | <p>Action should be taken to complete the procurement as scheduled.</p> |

- (c) Estimate of Rs. 252 million equivalents to US\$ 0.69 million was allocated for the procurement of Transfusion Drugs and the bidding period was two weeks. Two bids were received and bids had been opened on 18 June 2024. Although the Report of the Technical Evaluation Committee was

submitted on 29 July 2024, since the first bidder had not been obtained the certificate of the National Medicines Regulatory Authority (NMRA) at the time of bids opening, two members, out of the three members of the Technical Evaluation Committee, had not agreed to awarding the contract to that bidder. However, the said recommendation had been approved by the Technical Evaluation Committee. Further, the said recommendation had been approved by the Procurement Committee on 26 August 2024. Accordingly, an agreement had been made on 18 September 2024 for the supply of 200,000 vials of the said medicine at a total cost of US\$ 1,380,000. The following matters were observed in this regard.

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| i. Even though the Procurement Committee had approved the bid documents on 26 October 2023, more than 07 months had been delayed until 30 May 2024 to invite bids. | PMU is required to obtain prior MSD clearance before inviting tenders and Medical Supplies Division has given the approval | Action should be taken to complete the procurement as scheduled |
| ii. The audit in doubt that bid were not invited until 07 months since the Project Procurement Committee approved the procurement document in order to provide time for the selected bidder to obtain the certificate from the National Medicines Regulatory Authority (NMRA) . | The Medical Supplies Division confirmation was requested on 02 November 2023 and it had responded on 07 February 2024 at the medical supplies' procurement meeting. | Procurement process should be implemented efficiency and transparency. |

3.2 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Though the provided limit for the Shopping Method (Request for Quotation) as mentioned in the letter submitted to the audit by AIIB. It was Rs. 73 million as the strategy for	After completion of the bidding process the actual awarding prices were higher than the estimated values. As the packages were within the authority level of the Project	The prescribed instructions given by AIIB should be followed.

implementation the project, 06 Procurement Committee the packages procurements with the total value of Rs. were awarded to the successful 666.58 million had been awarded bidders. exceeding the said limit.