

Health Systems Enhancement Project - 2024

The audit of the financial statements of the Health System Enhancement 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 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 and Mass Media 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. However, the period had been extended on two occasions until 31 May, 2025 and again until 31 May, 2026.

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, 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 Recommendations
(a) Section 9.3 of the Management	Although the Project Steering Committee should meet at least once every two months,	The Project Steering Committee Meetings were decided and coordinated by the	Instructions should be followed

Circular No. 01/2019 dated 5 March, 2019, the Project Steering Committee had been met only at two occasions during the year under reviewed. Ministry and we were able to conduct only two Project Steering Committee meetings in the year 2024.

- (b) Supplement No. 32 of the Procurement Manual
- No payment should be made to the members of the Procurement Committee for procurements made under the shopping procedure or direct contract method. However, during the period 2020 to 2021, the project has paid Rs. 1,341,000 to the members of the Procurement Committee in this manner. The Secretary to the Ministry of Health has informed the Project Director in writing on 26 September 2022 to take steps to recover this amount from the relevant parties. However, up to the date of this report, an amount of Rs. 1,001,000 had not been recovered.
- We have written to all the members for the refund of the payments made for these procurements. We have received LKR 301,000 up to now as refunds of the payments and reminders have been sent to the other members to recover the balance due from them.
- The full amount should be recovered from the responsible parties

3. Physical Performance

3.1 Contract Administration

Audit Issue	Management Response	Auditor's Recommendations
(a) Quotations were invited through paper advertisements on 14 October 2022 for the construction of 6 regional hospitals in Ratnapura District. While examining the quotations received and the decision of the Procurement Committee, the audit observed instances where work had been carried out contrary to the provisions of the Procurement Guidelines. In this case, the audit focused on whether the institutions that initially submitted the highest quotations were considered the lowest	All bids have taken for the primary evaluation and some bidders have been rejected due to the various disqualifications.	A special investigation should be conducted in this regard.

quotations and given extraordinary discounts and whether the relevant discounts were subsequently included in the bidding documents when the bids were awarded. At that time, the audit observed facts that could be verified that the envelopes containing the second copy submitted by those institutions had been cut, opened and re-glued, and relevant changes had been made to those copies.

- (b) An agreement was signed with the selected contractor for the construction of the Outpatient Department of the Haputale Regional Hospital on 09 April 2021, and a sum of Rs. 8,005,132 was paid for the work completed in 3 phases as on 25 January 2022. Due to the non completion of the project by the contractor, an agreement was entered into with the new contractor selected to complete the remaining parts of the project on 24 January 2024. Although the project, which was agreed to be completed on 21 August 2024, was extended by 83 days to 12 November 2024, it was completed on 25 December 2024, with a delay of 43 days. The following observation was made in this regard.

An amount of Rs.1,974,233 to be recovered from first contractor who had defaulted the construction of the project had not been recovered from the contractor up to 10 March 2025 which was the date of audit even though more than 02 years had elapsed after completion of the project. Legal action had not been taken to contractor with regard to default of the above construction.

The amount of LKR 1,974,233 due from the contractor on the termination of the contract due to poor performance. We have sent several reminders to the contractor and the file has been referred to the legal unit of Ministry of Health & Mass Media for legal advice for future action.

Action should be taken to recover the balance immediately

- (c) Since the required staff and equipment are not in the dental surgery unit and the laboratory established in the building of

The Provincial health authorities have been informed to take necessary action to obtain staff and

Actions should be taken to achieve the project objectives.

Outpatient Department renovated in Dobagahawela Primary Medical Care Unit, it was observed that such 02 units had not been utilized. equipment to function the dental surgery unit and laboratory of the Dobagahawela PMCU.

3.2 System and Controls

Audit Issue	Management Response	Auditor's Recommendations
Since many hospitals located in Kandy District in Central Province are situated in remote and the hill slope areas, the clearance certificate should be obtained after inspection by National Building Research Organization in the construction of new buildings or renovation of the buildings by incurring a huge expense in said areas. It was observed some incidents on which the action had not been taken accordingly.	The action would be taken by the provincial health authorities to identify the hospitals which have not taken clearance from the National Building Research Organization and submit a report in this regard.	Action should be taken to obtain relevant clearance