

Covid 19 Emergency Response and Health Systems Preparedness Project and the Second Additional Financing for the Covid 19 Emergency Response and Health Systems Preparedness Project - for the period from 01 January to 30 April 2024

The audit of the Consolidated financial statements of the Covid 19 Emergency Response and Health Systems Preparedness Project and the Second Additional Financing for the Covid 19 Emergency Response and Health Systems Preparedness Project for the period from 01 January to 30 April 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 section 52 of the World Bank Report No. PAD 3852 dated 02 April 2020 and section 71 of the World Bank Report No. PAD 4442 dated 22 April 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association and the International Bank of Reconstruction and Development. 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 Health is the Executing Agency and the Project Management Unit (PMU) 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 Loan Agreement, the estimated total cost of the Project was US\$ 209.11 million equivalent to Rs. 41,717.45 million and out of that US\$ 61.51 million equivalent to Rs. 12,271.25 million was agreed to be financed by International Development Association and US\$ 147.60 million equivalent to Rs. 29,446.20 million was agreed to finance by the International Bank for Reconstruction and Development. But estimate cost reallocated as US\$ 225.72 million equivalent to Rs.45,031.15 million. The Project had commenced its activities on 27 September 2021 and scheduled to be completed by 31 December 2023. However, the date of completion of the activities of the Project had been extended up to 30 April 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying consolidated financial statements give a true and fair view of the financial position of the Project as at 30 April 2024, statement of expenditure and its cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified Opinion

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 Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of consolidated 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 Consolidated Financial Statements

My objective is to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Accounting Deficiencies

	Accounting Deficiency /Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	Receipt orders in respect of double cabs purchased amounting to Rs. 163.17 million and receipt and issue orders in respect of motorcycles purchased amounting to Rs. 239.49 million had not been submitted for audit. Hence, the accuracy of the above receipts and issues of double cabs and motorcycles could not be ascertained in audit.	402.66	Further information will be sent to you as soon as information is received from the relevant sections.	All evidence should be submitted to the audit.
(b)	The project cost incurred for the expansion of the "Penicillin Zone" of the State Pharmaceutical Manufacturing Corporation was Rs. 467.01 million. However, according to the audited financial statements of the State Pharmaceutical Manufacturing Corporation, it was shown as Rs. 438.15 million. Hence, a difference of Rs.28.87 million had been observed between two balances.	28.87	The actual cost incurred for the project is Rs. 467.01 million.	Action should be taken to reconcile the balances.

3. Physical Performance

3.1 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Although construction activities had been carried out by utilizing the project funds amounting to Rs. 424.63 million	The Director, District General Hospital has requested a 02-week period to provide	Action should be taken to achieve the project objectives.

to convert the old Hambantota District General Hospital into an Infectious Diseases Hospital, it was revealed that the constructions were not used for the relevant purpose.

information regarding this matter.

- (b) An amount of Rs. 5,424.31 million had been paid to the United Nations Children's Fund (UNICEF) to purchase the medical supplies and the following observations were made during the audit.

- (i) The Ministry of Health had not obtained the covering approval of the Cabinet of Ministers for the purchase of medical supplies worth Rs. 5,424.31 million.

Comments had not been received.

Should be obtain the approval of the Cabinet of Ministers

- (ii) According to the information submitted to the audit, although it was indicated that 101,343 units of 12 medical supplies items were supplied under 5 purchase orders at a cost of US\$ 3,968,681.18 information had not submitted to the audit regarding which institution received those medical supplies.

A letter dated September 12, 2025, has been sent to the Deputy Director General of the Medical Supplies Division, requesting him to submit the relevant information.

Action should be taken to conduct investigation and action should be taken to recover any overpayments.

- (iii) 397,798 units belonging to 5 numbers of medical supplies had been supplied through 09 numbers of Invoice issued by UNICEF and their cost was USD 1,551,733.95. As per the final report as at 16 December 2021 related to this matter presented by UNICEF, the cost of medical equipment and medical supplies that were supplied under this No. 09 numbers of Invoice was USD 1,514,304.90. Accordingly, a difference of USD 37,429.05 was observed.

A letter dated September 12, 2025, has been sent to the Deputy Director General of the Medical Supplies Division, requesting him to submit the relevant information.

Action should be taken to conduct investigation and action should be taken to recover any overpayments.

(c) An advance amount of USD 18,351,439 had been given to the United Nations Office for Project Services (UNOPS) in the year 2021 in order to purchase the medical equipment and medical supplies, and the following observations were made during the audit.

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| (i) | The Ministry of Health had not obtained the covering approval of the Cabinet of Ministers for the purchase of medical equipment and medical supplies worth Rs. 3,647.88 million. | Comments had not been received. | Should be obtain the approval of the Cabinet of Ministers |
| (ii) | Detailed schedules for medical equipment and medical supplies worth Rs. 293.02 million purchased through UNOPS had not submitted for the audit. | Comments had not been received. | Detailed schedule should be submitted to the audit. |
| (iii) | Invoices relating to purchases of Rs. 483.19 million had not been submitted for the audit. | The certified invoices could not be available from UNOPS office as per the conditions of the agreement. | Relevant documents should be submitted to the audit. |
| (iv) | According to the agreement signed on 01 February 2021 between the “United Nations Office for Project Services” and the Secretary to the Ministry of Health on behalf of the Government of Sri Lanka for the procurement of medical equipment and medical supplies, all expenses up to the delivery of the relevant items to the Ministry’s warehouses were to be borne by the institution from the money paid to the “United Nations Office for Project Services”. Both parties had also agreed to exempt the goods from customs duties and taxes payable on importation. However, the project had paid Rs. 46,664,504 in customs | These payments were made during the Covid-19 pandemic situation and items concerned are very urgent to clear under the prevailing conditions. | Action should be taken to conduct investigation and identify responsible persons. |

duties and Rs. 860,778 in warehouse charges for medical equipment under these agreements in the year 2021.

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| <p>(d) An amount of Rs. 824.26 million equivalents to US\$ 4.11 million had been paid directly to the relevant suppliers from the project fund for the purchase of medical supplies in 2021. Information regarding the goods receipt orders related to this payment had not submitted to the audit.</p> | <p>Comments had not been received.</p> | <p>Evidence confirming receipt of the relevant goods should be submitted for audit to verify.</p> |
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3.2 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendations
<p>Although a total expenditure of Rs. 933.71 million comprised of Rs. 910.41 million had been incurred for the development of buildings and Rs. 23.30 million for the acquisition of assets, information on construction projects, the total cost incurred, whether the project work has been completed or the constructions are currently being utilized had not been submitted to audit. Moreover, assets accounted under the non-financial assets of the Ministry, had also not been submitted to the audit.</p>	<p>Additional Secretary (Development) and DDG (Logistics) have been instructed to take appropriate action on this matter and progress of the action will be notified to Audit within a month.</p>	<p>Relevant information should be submitted to the audit and steps should be taken to account for these assets.</p>