

The audit of consolidated financial statements of the Primary Health Care System Strengthening Project – Component 1 for the year ended 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 Agreement No. 8878 - LK dated 23 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and International Bank for 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, then the Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health and Mass Media is the Executing Agency and the Ministry of Health in collaboration with then Ministry of Provincial Councils, Local Government and Sports, presently the Ministry of Public Administration, Provincial Councils and Local Government is the Implementing Agency of the Project.

The Project is mainly divided into Component 1 and component 11 and component 1 is implemented at the central level and provincial level. The objective of the project is to increase the utilization and quality of primary health care services, with an emphasis on detection and management of non – communicable diseases in high -risk population groups in the selected areas of the country. As per the Loan Agreement, the estimated total cost of the Project was US\$ 200 million equivalent to Rs. 31,588 million. Total cost of the project was agreed to be financed by International Bank for Reconstruction and Development. The Project had commenced its activities on 23 January 2019 and scheduled to be completed by 31 December 2023.

1.3 Opinion

In my opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Project as at 31 December 2023, consolidated expenditures and its consolidated cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 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

Management is responsible for the preparation of 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 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 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. 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
Paragraph 5.4.10 of the Procurement Guidelines	i. Due to non-obtaining of performance security in the procurement of goods under the Primary Health Services Upgrading Program of southern province in the years 2021/2022 the Government had been incurred a loss of Rs. 5,806,863.	In the year 2021, the audit query had been made with reference to the events that took place during a period of widespread covid 19 epidemic situations in the country. Also, the economic instability in the country beyond the last quarter of 2021 should also be mentioned.	Procurement Guidelines should be followed
	ii. Items such as desktop computers, laptop computers and printers had not supplied by suppliers were re-procured and purchased by the Provincial Health Services Department due to the increase in the market prices of each item. An additional cost of Rs.30,028,150 had been incurred by the Government .	Due to the unexpected economic crisis, various measures were taken in good faith to continue the health service in the Southern province, and I kindly point out that it was not done with the aim of causing a loss to the Government	Procurement process should be implemented effectively.

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Management Response	Auditor's Recommendations
(a)	Construction of Provincial Resource Centre at Periyakulam – Trincomalee		
	i. Based on the bill of quantities specified in the agreement, an	Some variations were observed during the construction process,	Construction cost should be identified

	<p>amount of Rs. 8,348,167 was estimated for 15 activities. However, an amount of Rs. 12,964,541 was paid for those activities during the year under review. This was an increase of 55 percent over the contracted value.</p>	<p>which emphasized the necessity of constructing retaining walls before commencing buildings construction</p>	<p>correctly when preparing estimates.</p>
	<p>ii. During the year under review, an amount of Rs. 3,519,450 was paid for four new additional activities that were not included in the agreed BOQ. This was 16% of the contract value. Approval for this had not been obtained as of the date of the audit field inspection on 01 November 2023.</p>	<p>This need arose due to the challenges of estimating the land conditions at the initial estimation stage.</p>	<p>Construction cost should be identified correctly when preparing estimates.</p>
	<p>iii. As per the agreed BOQ agreement, an amount of Rs.21,445,000 was estimated for the implementation of 115 BOQ items, and an amount of Rs.16,948,835 had already been paid for 23 BOQ items alone. However, 96 activities worth Rs.12,345,652 were not completed, leaving only an amount of Rs.4,496,164. Accordingly, Rs.7,849,487 representing 37% of the contract value had been paid for additional activities.</p>	<p>The oversight of savings from other specified works in the BOQ led to the actual variation from the contract amount paid was 2,113,590 equivalents to 9.8% of the awarded amount</p>	<p>Construction cost should be identified correctly when preparing estimates.</p>
(b)	<p>A sum of Rs. 4,087,800 was paid in 2022 for the construction of a two-storey container warehouse at the Mawanella Base Hospital, which was completed on 30th August 2022 and handed over to the Mawanella Medical Superintendent. During the on-site inspection conducted on 12th February 2024, it was observed that although 17 months had passed since the handover of this container warehouse to the hospital, due to the failure to install shelves on the lower floor for systematic storage, boxes containing clinical notes were improperly stored and the upper floor remained unused.</p>	<p>Accepted</p>	<p>The two-storey container warehouse should be used for its intended purpose.</p>

3.2 Payments made other than the Project Objectives

Audit Issues	Responses of the Management	Auditor's Recommendations
While the main objective and DLI of the PSSP program were correctly defined, 05 constructions and 03 cases of purchase of office equipment worth Rs. 28,252,376 were observed in the North Western Province during the year under review that were not in line with the main objective.	It is informed that all functions performed were strengthening of the health service.	Expenses should be incurred within the project objective.

3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The Ministry of Health's official website renovation project was approved by the Ministry of Health's e-Promise Committee on 18, February 2021 to conduct the bidding process under the government's Online Electronic Procurement System (e-Promise.lk). Accordingly, the bids were invited under the National Competitive Bidding system on 01, April 2021 and two bids were received for this as per the documents submitted for audit. The bids were opened on 30, April 2021 and after evaluating the bids on several occasions and taking various decisions by the Procurement Committee, the Technical Evaluation Committee, which met on 22, December 2021 had recommended that the contract to be awarded to the institution that submitted the lowest bid subject to a 20%Performance Bond. Accordingly, the Ministry Procurement (E) Committee, which met on 30, December 2021, had decided to award this contract to the said institution forRs 2,088,738 and a Purchase Order had been issued on 01, January 2022. For this, Rs. 2,402,048 had been paid by the project on 31, October 2023.		

Following observations are made.

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| i. The bid of the highest bidder was rejected by the Technical Evaluation | After closing the bids on 30 th April 2021, two bids were handed over | An investigation should be conducted for the |
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Committee on 10 May 2021 due to the failure to submit bid security and the failure to meet 12 out of the 14 evaluation criteria assessed. Based on the confirmations obtained by the audit from that institution, it was confirmed that the institution did not submit a bid for this contract and that the signature used for the bid was a forged signature. It was also confirmed during the audit that the letter included in the file expressing gratitude for the extension of time was also forged.

to the TEC for evaluation by the procurement division. TEC had observed that the bid by EMS pvt Ltd had a series of shortcomings and the TEC was not satisfied about professional experience in web development by the Arrogance Technology pvt Ltd was an issue to the TEC. TEC did not recommend second lowest bid by EMS and recommend the lowest bid if the Procurement committee is satisfied or to recall bids.

submission of forged documents.

- ii. According to the report of the Technical Evaluation Committee dated 21, July 2021 two out of the five members of the committee had not participated and one member had not agreed with the committee's decision. But Committee had taken decision to award the contract.

It is agreed that at the first TEC meeting decisions were divided. There was no majority decision.

Procurement Guidelines should be followed.

- iii. In terms of Procurement Guidelines 8.9 of 2006, after accepting the bid submitted by a bidder, the procurement entity should issue a letter of acceptance to the bidder and sign a formal contract with the contractor. However, no written evidence was submitted to confirm that such a written contract was signed in relation to this contract.

Action has been taken to prevent occurrence of such mistakes in the future.

Procurement Guidelines should be followed.

- (b) in the year 2023, an amount of Rs.389,343,884 had been paid by component I of the Primary Health Care System Strengthening Project to the trainee Family Health Service Officers recruited for the academic year 2022/2023.

Accept. That this particular activity in specific name does not appear in the action plan prepared for year 2023.

Action plan should be prepared correctly.

According to the action plan prepared by the above project in the year 2023, Rs. 472 million has been allocated for capacity building, but no provision has been made for monthly allowance payments to officers. Accordingly, it was observed during the

inquiry that spending on activities not covered by the action plan, spending on activities that are not related to the purpose, as well as poor financial administration.

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| (c) | The necessary equipment has been provided to the entire hospital system in the Southern Province for networking, and the Southern Provincial Health Services Department had spent a total of Rs. 143,432,506 for it. During the audit field inspection, it was observed that the HHIMs, HIMS systems were not operational in 50 hospitals in the Galle, Matara and Hambantota districts. | It is kindly reported that most of the health institutions in the province has entered data according to information of March 2024 of the HIMS data system of the Ministry of Health. | The desired goal should be achieved. |
| (d) | From 2019 to 2022, 211 bar code sticker printing machines were provided to Southern Provincial Hospitals at a cost of Rs. 10,888,860 from time to time, but no officer had been trained in the operation of those machines. | Once carrying out a broad analysis in the province, action was taken to provide a proper training to necessary officers | The operator should be trained |

3.4 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	<p>The contract for the computerization of the services provided by the Sirimavo Bandaranaike Specialized Children's Hospital, to develop a system covering all aspects of the hospital, was awarded on 18th October 2018 for a value of Rs. 19,496,858 (excluding VAT) under the procurement number MH/PB/03/16/2018.</p> <p>The relevant project was completed at a cost of Rs. 19,496,857 and handed over to the Sirimavo Bandaranaike Specialized Children's Hospital on 19 November 2019. Although this project, had been completed at a high cost, as of 14 August 2024, plan, purchase of technical equipment or submission of a project report had not been made to activate the relevant system.</p>	Accept. That for 3 years or so the computerized E Health Information system has not functioned fully.	Completed projects should be utilized effectively.

Accordingly, it was observed during the audit that this project was a completely inactive project that had not achieved its goals.

- (b) The MSMIS computer system (Pronto system) for medical supply stock management was started from 2015 and was implemented until the end of May 2023 and an expenditure of Rs. 633.6 million was incurred for that system. In June 2023, that computer system was removed and replaced by a computer system called Swastha as a comprehensive information management system for medical supply management. The contract to develop this system was awarded to a private company at an estimated value of Rs.101.8 million and Rs.51 million had been paid to this private company by July 2023 through the Primary Health Care Project to establish this new system. Also another Rs. 3.0 million had been spent on training programs. The following facts were observed during the inspection conducted in this regard.

- i. A separate section of the Ministry of Health had been established for implement, but that section had not been to implement participate in the procurement of this health system or in the technical evaluation of the system.

Swastha, Medical supply management information system was established by the then State Ministry of Production, Supply and Regulation of Pharmaceuticals as a government decision. This was done after the expiration of the service agreement of former pronto MSMIS which was found unable to be expanded to primary care delivery institution network.

Efforts should be made to utilize the services of existing human resources.

- ii. Action had not been taken to integrate this health system with systems such as HHIMS HIMS, which were already being implemented in the health sector

Swastha should be integrated with other health information systems attention has been paid already to initiate this development.

The new system should be integrated with existing systems to achieve the desired objective.

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| <p>iii. A special audit was conducted on 30 June 2023 to investigate the problematic situations that have arisen in the establishment and implementation of the health system. Here, 28 regional hospitals and 12 regional medical supply divisions covering the Medical Supply Division, Ministry of Health, National Hospital of Sri Lanka, Lady Ridgeway Children's Hospital, Teaching Hospitals, District Hospitals, Base Hospitals were inspected across the island. Since the system had not been developed to suit the needs of the users of this system, various problems had arisen in using the system for daily activities. Accordingly, there were issues with the accuracy of the data when integrating the existing Pronto system data into this system, and good coordination had not been established between the key institutions involved in the medical supply network such as the State Pharmaceuticals Corporation, National Drug Regulatory Authority, Medical Supply Division, State Pharmaceutical Manufacturing Corporation. The audit observed that the system was not connected to the system, that adequate controls were not established regarding data entry and data security, and that there were insufficient records for stock management decision-making.</p> | <p>All types of records and dashboard facilities for system users have been fully provided to all users. At present, all hospitals, regional medical supply divisions, medical supplies division, state pharmaceutical corporation, state pharmaceuticals manufacturing corporation etc. use the system to carry out the work related to the medical supply process.</p> | <p>Action should be taken to connect the system effectively.</p> |
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