

FINANCIAL MANAGEMENT ASSESSMENT

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA:
RESPONSIVE COVID-19 VACCINES FOR RECOVERY PROJECT
UNDER THE ASIA PACIFIC VACCINE ACCESS FACILITY**

JUNE 2021

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EXECUTIVE SUMMARY

A financial management assessment (FMA) has been conducted in February–March 2021 in accordance with ADB’s Guidelines¹. The FMA focused on assessing the financial management arrangements such as fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring and internal and external audit for the project and for the national deployment and vaccination plan² with a focus in the areas of inventory management, data management, accounting, oversight, and audit. The purpose of the FMA is to ensure that adequate financial management arrangements are in place for the implementation of the proposed project and for obtaining the assurance that the project development objective is achieved.

The assessment was based on desk review and the main information sources included: (i) interviews to the government and the implementing agency; (ii) review of key documents including the National Deployment and Vaccination Plan for COVID-19 Vaccines (NDVP); (iii) discussion with other development partners financing the vaccination plan (e.g., the World Bank); and (iv) drawing lessons from ongoing ADB projects in the country.

MOH has an established track record in conducting vaccination programs and adequate procedures and systems are in place. Moreover, the MOH is currently implementing an ADB financed project through a PMU, which will also be used for the proposed project. The FMA found that the MOH and its PMU have adequate financial management capacity to: (i) record the required financial transactions; (ii) provide reliable annual financial statements and audit reports; and (iii) safeguard the financial assets. The FMA also found that the PMU has demonstrated satisfactory performance in complying with ADB’s financial management requirements. However, the pre-mitigation financial management (FM) risk is assessed as *Substantial* mainly because of: (i) the scale and complexity of the project; (ii) potential delays in the release of government counterpart funds; and (iii) the lack of fully integrated systems for tracking the vaccine distribution, including the use of manual systems at the district level to record the vaccine stock.

The FM risk will be mitigated through the following actions, which have been agreed with the government:

- (i) Strengthening the FM capacity of the PMU by engaging additional financial staff to support the PMU;
- (ii) Ensuring that sound fixed asset and inventory and vaccine stock management processes and systems are maintained at all levels;
- (iii) Including comprehensive FM information including detailed comparison of physical and financial progress in the quarterly progress reports to be submitted to ADB;
- (iv) Prioritizing routine internal audits on fixed asset management and inventory systems to ensure proper controls are in place to safeguard assets from fraud, waste, and abuse; and
- (v) Having the National Audit Office conduct financial, compliance, and performance audits of the execution of the vaccination plan.

¹ Asian Development Bank (ADB). 2015. [Financial Management Technical Guidance Note](#). Manila; ADB. 2020. [ADB’s Support to Enhance COVID-19 Vaccine Access](#). Manila; and ADB. 2021. [APVAX Preparation Guidance Note](#). Manila.

² Sri Lanka National Deployment and Vaccination Plan for COVID-19 Vaccines (NDVP) dated 18 January 2021.

Moreover, the project will maintain separate books of accounts in accordance with government's accounting standards and the project financial statements will be audited annually by the National Audit Office in accordance with International Audit Standards.

I. INTRODUCTION

1. A financial management assessment (FMA) has been conducted in accordance with ADB's Guidelines.³ The FMA focused on assessing the financial management arrangements such as fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring and internal and external audit for the project and for the national deployment and vaccination plan⁴ with a focus in the areas of inventory management, data management, accounting, oversight, and audit. The purpose of the FMA is to ensure that adequate financial management arrangements are in place for the implementation of the proposed project and for obtaining the assurance that the project development objective is achieved.

2. The assessment was based on desk review and the main information sources included: (i) interviews to the government and the implementing agency; (ii) review of key documents including the National Deployment and Vaccination Plan for COVID-19 Vaccines (NDVP); (iii) discussion with other development partners financing the vaccination plan (e.g., the World Bank); and (iv) drawing lessons from ongoing Asian Development Bank (ADB) projects in the country.

3. The FMA report includes the following sections: (i) brief project description; (ii) Country and Sector Financial Management assessment; (iii) vaccination program financial management system assessment; (iv) project financial management assessment; (v) disbursement arrangements; (vi) risk assessment; (vii) proposed time bound action plan; and (viii) supervision and implementation support plan.

II. BRIEF PROJECT DESCRIPTION

4. **Impact and Outcome.** The project is targeting the entire country across all 26 health districts in all 9 provinces of Central, North Central, Sabaragamuwa, Uva, Western, North Western, Northern, Eastern, and Southern while ensuring that the geographically, socially, and economically deprived populations are protected from coronavirus disease (COVID-19) and its effects. The beneficiary population of the project is the total population of 22 million. The expected project impact will enhance the resilience and responsiveness of the health system to curtail the COVID-19 virus spread, reduce morbidity and mortality, and the negative health, social and economic effects of the COVID-19 pandemic in Sri Lanka.

5. **Outputs.** The project outputs include the following:

- (i) **Output 1: COVID-19 vaccines delivered.** Under output 1, the project will provide vaccines to cover at least 18.2% of the population as well as consumables such as syringes, emergency equipment, and drugs defined in the NDVP. In addition, this output will provide support to medical supplies information management system and to initiate the e-procurement practices in the health sector.
- (ii) **Output 2: Vaccination information dissemination and monitoring systems strengthened.** Output 2 will support the Ministry of Health (MOH), Epidemiology unit to improve and enhance the electronic National Immunization Program (e-NIP) and its electronic Adverse Effects Following Immunization Program (e-AEFI) and to introduce a novel COVID-19 Immunization Tracker developed by the World

³ ADB. 2015. *Financial Management Technical Guidance Note*. Manila; ADB. 2020. *ADB's Support to Enhance COVID-19 Vaccine Access*. Manila; and ADB. 2021. *APVAX Preparation Guidance Note*. Manila.

⁴ Sri Lanka National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccines dated 18th January 2021.

Health Organization (WHO) by purchasing laptop computers and tablets to all Medical Officer of Health units. Under this output, the project will also provide support to ensuring gender equality and social inclusion by providing training for community groups and developing and printing of communication material. Moreover, implementation support to the project is also included under this output.

- (iii) **Output 3: Capacity of vaccine transport systems expanded.** This output will support to enhance the capacity of the vaccine transport system through the purchase one small crew cab refrigerator trucks to each of the 26 Regional Medical Supply Divisions (RMSDs) and 10 large trucks to the MOH (Epidemiology Unit and Medical Supplies Division). In addition, this output will also provide support to hire vehicles to each district team to facilitate the movement of staff as well as to mobilize adequate human resources to regional stores, divisional offices and to vaccination centers for supervision and management of the program; and
- (iv) **Output 4: Vaccine related medical waste management strengthened.** This output will support the implementation of the Medical Waste Management Plan (MWMP) of the MOH by procuring 12 incinerators for waste management in six provinces and upgrading 26 sewerage systems upgraded in COVID-19 managed hospitals.

6. The executing agency will be MOH which will implement the project through the project management unit (PMU) currently implementing the ADB-financed Health System Enhancement Program (HSEP).⁵ The Epidemiology Unit of MOH will have the lead in implementing the NDVP and will be supported by the Medical Supplies Division (MSD) and State Pharmaceuticals Corporation of Sri Lanka (SPC). The implementation arrangements are further illustrated in Annex B.

7. The project cost is expected to amount to approximately \$161.85 million and will be financed by an ADB loan of \$150 million⁶ and government counterpart financing of \$11.85 million covering mainly taxes and duties. The project base cost⁷ of \$148 million is expected to be incurred as part of procurement of vaccine (\$90.7 million)⁸, equipment (\$14.1 million), civil works (\$22.7 million), vehicles (\$2.3 million), services (\$13.8 million), and incremental administration (\$4.4 million). The project will result in a moderate number of large contracts and transactions to be incurred over an implementation period of three years.

8. Given the scale and complexity of the activities, the project is considered complex and with substantial financial management (FM) risk.

⁵ ADB. 2018. [*Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Democratic Socialist Republic of Sri Lanka: Health System Enhancement Project*](#). Manila. The project aims contribute to the government's development objective to ensure a healthier nation by supporting the development of a more responsive and comprehensive primary health care (PHC) system in Sri Lanka. The project will (i) inform and operationalize government PHC reform initiatives, (ii) improve underserved communities' access to primary health services, and (iii) address selected gaps in core public health capacities in line with the International Health Regulations (IHR).

⁶ The ADB loan will consist of an RRC loan of \$84 million and a PIC loan of \$66 million.

⁷ The project base cost comprises of investment costs and recurrent costs (inclusive of taxes and duties) but excludes contingencies and financing charges.

⁸ The vaccine is expected to be financed by the ADB RRC loan (\$84 million) and by GoSL (\$6.7 million).

III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ASSESSMENT

9. **Overview.** The most recent Public Financial Management (PFM) assessment is the ADB comprehensive PFM review conducted in 2018.⁹ In addition, ADB has conducted reviews and assessment of PFM systems as part of its projects and results-based lending (RBL) programs in the country. The findings are summarized below.

10. **Public Financial Management.** PFM in Sri Lanka is centralized, with the Ministry of Finance (MOF) playing a key role. PFM guidelines are specified in the Financial Regulations (2002) and subsequent amendments. Detail on government functions and fiscal responsibilities is provided in government acts and regulations. The Constitution and subsequent amendments instruct about the division of responsibilities between central, provincial, and local government.

11. **Budgeting.** The government has a clearly defined state budget and budget formulation procedure. It follows a procedure of budget formulation guided by a budget call circular issued by the Department of National Budget under the MOF. The procedure follows a budget calendar, which includes legislative review of the extent to which budget allocations reflect stated policies and priorities. The budget for the following year is normally published in November. The budget targets are set for a year while budget estimates are made for three years (MOF medium-term budget framework). In 2020 the government operated most of the year under a vote of account covering four months at a time. The budget for 2021 was approved in November 2020.

12. The government budget and accounts are presented along several dimensions as allocations and transactions are classified by several different categories (coded) enabling detailed analysis of allocations and spending. The government has a robust system for budget releases (budget execution) with decentralized spending authority to different accounting units operating their own government bank accounts in which monthly cash releases are deposited. The system and procedures for budget management and accounting include the decentralized computerized accounting system (CIGAS). Accounts are consolidated upwards by submission of accounting records from each accounting unit.

13. Advances are controlled and settled, with end-of-year zero balances in all bank accounts of all government accounting units. Accounts are closed monthly in compliance with the government financial regulations. All agencies need to undertake monthly bank reconciliation. Furthermore, all bank account balances are controlled by the central treasury who prepares daily, and monthly cash balances of all government bank accounts. The balances of the respective budget entity are rolled back to one single overall balance (a single treasury accounting system).

14. The government financial regulations set out rules for transfers between budget heads to ensure compliance with overall budget allocation objectives. Within the year, adjustments are made to the budget, to revise less than forecasted revenue, priorities for reduction of accumulated domestic debt and/or other ad-hoc requirements. These are pronounced through circulars from MOF in which spending units are asked to consider an overall reduction in the budget or in specific budget heads.

15. **Accounting** The government has adopted Sri Lanka Public Sector Accounting Standards accrual basis of accounting which are consistent with International Public Sector Accounting Standards. The government financial regulations provide a clear segregation of duties. The

⁹ ADB. 2018. [Public Financial Management Systems-Sri Lanka: Key Elements from a Financial Management Perspective](#). Manila.

accounting system CIGAS is partially manual.¹⁰ A new fully integrated web-based system, the Integrated Treasury Management Information System (ITMIS) is being developed in which all entries from all entities will be made directly to a central database and subsequently captured by a central server allowing real time online reconciliation. The ITMIS will significantly expand PFM capability and improve the assurance to the financial statements as, besides accounting, will include commitment control, budget preparation and treasury operations. ITMIS is being piloted in MOF and is expected to be rolled out to other ministries and provincial level by end of fiscal year (FY) 2021.¹¹

16. **Internal audit.** All ministries including MOH are required to have an Internal Audit Department. They prepare an annual audit plan, which is submitted to the Department of Management Audit (DMA) of MOF and the National Audit Office (NAO) for information and undertake frequent audits following, to some extent, risk-based procedures. Sri Lanka has over the years introduced new and improved regulations and standards for internal controls and internal audit departments. Furthermore, the internal audit units have been strengthened through training and additional supervision provided by the DMA. DMA regularly undertakes training of the internal audit staff based on the Government internal audit guidelines that are in line with international internal audit guidelines and standards.

17. **National Audit Office.** The NAO was established by the National Audit Act of July 2018. NAO, through the Auditor General, is mandated to conduct independent review of the performance and accountability of all public sector institutions as well as externally funded projects such as ADB projects. NAO conducts its audits in accordance with Sri Lanka Auditing Standards which are based on International Organization of Supreme Audit Institutions (INTOSAI) standards. The integrity and independence of the NAO also meets the standard requirements as guided by INTOSAI. NAO reports the audit findings to Parliament. NAO reports including the audit opinion on appropriation accounts are submitted to the Parliament within 10 months after the fiscal year end.¹² The Parliament usually approves the audit reports within one year. However, due to the absence of parliament the process was delayed in 2020. Audit findings are followed up with directives issued by the Committee on Public Accounts of the Parliament. The audit reports with management replies are publicly available on the NAO website.

18. **NAO resources.** The FM assessment notes that the budget allocation for NAO is expected to grow by a healthy 10% by year between 2019–2023 (table below).

NAO budget 2019–2023 (in '000 LKR)						
	2019	2020	2021	2022	2023	CAGR
Recurrent	1,795,377	1,944,200	2,270,150	2,484,900	2,705,050	10.8%
Capital	111,912	61,500	68,000	74,900	80,900	-7.8%
Total	1,907,289	2,005,700	2,338,150	2,559,800	2,785,950	9.9%
\$ million	9.9	10.4	12.1	13.2	14.4	9.9%

Source: Government of Sri Lanka, Ministry of Finance budget estimates/approved budget 2021.

¹⁰ A new version of Computerized Integrated Government Accounting System was released in October 2019 and it includes features such as Budget Migration (budget file can be uploaded), Cash Book (all the transaction can be fed), Commitment (commitment and liabilities), Asset Management (asset purchase, disposal, reports), SLIPS (Sri Lanka Inter Bank Payment System), and Ledgers (deposits, advance, assets, lease, revenue, etc.). For the FY2021 the old version of Computerized Integrated Government Accounting System will still be used.

¹¹ The roll out of Integrated Treasury Management Information System may be delayed because of COVID-19 pandemic.

¹² Article 154(6) of the Constitution states that the Auditor General “shall within 10 months after the close of each financial year and as and when he deems it necessary report to Parliament on the performance and discharge of his duties and functions under the Constitution”.

19. **Type of audits.** The annual audits by NAO include financial and compliance audits of all government agencies, performance audits of selected entities, special audits related to some sectors, transactions and/or programs as well as inspections in risky areas, where information suggest risks in PFM practices. In addition to observing general INTOSAI standards and guidelines, the NAO is assisted with specific manuals developed for performance audits and procurement audits.

20. **Performance audits.** NAO has extensive experience in conducting performance audits. NAO has a separate performance audit division headed by an Assistant Auditor General (AAG) and reporting to the Auditor General. The division is adequately staffed with a Superintendent of Audit, Audit Officers, and Audit Examiners. The performance audits are conducted in accordance with INTOSAI's International Standards of Supreme Audit Institutions (ISSAI 3000–3200).

21. NAO has in place a performance audit manual which was developed with the support of USAID in 2016. The manual is based on the relevant ISSAI and covers key areas including: (i) planning a performance audit; (ii) conducting a performance audit; (iii) reporting of a performance audit; (iv) follow-up audit; and (v) quality assurance. Generally, the NAO undertakes the following type of performance audits: (i) audits of a program or activity in a single entity; (ii) cross entity audits (reviews the same activity in a number of entities or the administration of a program by a number of entities); (iii) sector audits; and (iv) detailed audits carried out as a result of comprehensive audits; (v) auditing important national issues (e.g. environmental pollution, success of disease management etc.); and (vi) weak or substandard key areas of the government.

22. In the past 10 years, NAO has conducted over 50 performance and environment type audits and around 50% of these audits were conducted in the past three years (2018–2020). NAO has also strong experience in the health sector and has completed the following performance audits: (i) Dengue Control Programme Including Prevention and Treatment (2012); (ii) Benefit of Children and Child Mothers in the Childcare Development Centers in the Western Province (2011); and (iii) Clinical Waste Disposal Methodology and Impact 2019. In 2018, NAO also conducted a special audit on the process of supplying medical supplies carried out by the MSD and MOH covering the years 2011–2016.

23. The Supreme Audit Institution (SAI) performance report (2018),¹³ which was published before the National audit act was approved in July 2018, noted that at a technical level the Auditor General's Department of Sri Lanka (AGSL) (now called NAO) has the capacity to perform well in conducting performance audits and the performance audit function is generally well in ensuring that quality standards are maintained. In particular, the areas of Performance Audit Standards and Quality Management as well as the performance audit process scored well (3 out of 4) in the assessment.

24. **Conclusion.** The inherent country FM risk is assessed as moderate. Overall, the government has adequate PFM systems in place which should be used to the extent possible in project implementation and supplemented with standalone systems where necessary. However, ADB need to closely monitor the ongoing PFM reforms and initiatives including the launch of the ITMIS as well as that funds are made available to the project in a timely manner to avoid delays in project implementation.

¹³ SAI performance report, Auditor General's Department of the Republic of Sri Lanka (June 2018).

IV. VACCINATION PROGRAM FINANCIAL MANAGEMENT SYSTEM ASSESSMENT

25. On 16 March 2020, in response to COVID-19, the government has established a National Operational Centre to take preventive and management measures to ensure public healthcare and other services are well geared to serve the public. On 26 March 2020, a Presidential Task Force was appointed on COVID-19 response to direct, coordinate, and monitor the delivery of conscientious services for the sustenance of overall community.

26. To support the government, address the emergency, ADB approved a grant under the Asia Pacific Disaster Response Fund (APDRF) in the amount of \$3 million in June 2020.

27. The NDVP for COVID-19 vaccines has been developed in January 2021 to address key considerations for the selection of vaccines (e.g., safety, efficacy, sensitivity, supply, cold chain requirement), the process and stages of vaccination from scientific evaluation to monitoring and safety surveillance, and the desired end-state of coronavirus vaccination. The plan includes a prioritization and allocation strategy for vaccines (sectoral and geographical), along with information on vaccine deployment, waste management and development coordination.

28. In February 2021, a vaccine readiness assessment was performed by the United Nations Children's Fund (UNICEF), WHO, and World Bank using the vaccine readiness assessment tool. The assessment concluded that there is central level capacity at MOH to guide COVID-19 vaccination, the national vaccination allocation plan is in line with the WHO's Strategic Advisory Group of Experts on Immunization, and the vaccination program can be implemented through the existing health system.

29. The NDVP provides information on the stakeholders engaged in the vaccine deployment with detail on the roles each one will play. It also provides information on vaccine procurement, cold chain and storage facilities, and on the vaccine distribution and deployment including inventory management and monitoring.

30. Under the NDVP, the vaccines will be procured centrally by the MOH via SPC of Sri Lanka. MOH will manage the storage, logistics and administration of vaccines.

31. **Budget.** The NDVP budget is analyzed in detail in the financial analysis linked document.

32. **Vaccine supply and distribution systems and cycle.** MSD is the organization responsible for providing all pharmaceuticals, surgical items, laboratory items, printed materials, etc. for government sector healthcare institutions. MSD was established under MOH but then moved under the newly established State Ministry of Health and Nutrition. MSD is responsible for receipt, storage and distribution of medical supplies including vaccines procured and/or supplied by the SPC, State Pharmaceutical Manufacturing Corporation (SPMC) and Local Manufacturers.

33. Sri Lanka has implemented a Medical Supplies Management Information System (MSMIS) also called PRONTO XI. MSMIS/PRONTO XI was officially launched in 2018 and it can manage the entire supply chain process of medical supplies. It also has the functionality to track vaccines batchwise and lot-wise by financier to monitor the utilization. Every medical institution is required to be registered in the MSMIS web portal maintained by MSD and they are all assigned a unique user code. MSMIS has over 2,000 users registered, and it is able to connect over 300 users and health institutions at a time. However, the system is not fully in use at the district level and some medical institutions still maintain manual systems.

34. The vaccine procurement and deployment cycle will follow the steps: estimation, ordering, procurement, storing, distribution, and vaccine administration. The selection and estimates phases will be conducted by the Epidemiology Unit of MOH. SPC will be used for procuring and transporting the vaccines to Sri Lanka. Upon arrival, the vaccines will be handed over to the Epidemiology Unit of MOH for storing. The vaccine will be distributed in the country through MSD, RMSD, and MOH divisional units for storing and further distribution to 2,000 vaccination centers¹⁴ where the vaccines will be administered to the vaccinee. The detailed steps of the vaccine procurement and deployment cycle and the relevant actors are further analyzed below:

- (i) **Estimation.** MSMIS/PRONTO XI includes a forecasted requirement module through which estimates are submitted to MSD by the various medical/health institutions. The received estimates are reviewed by MSD's Stock Control Officers (SCO) and the Assistant Director. The Medical institutions that do not have electronic access to the platform, prepare estimates in excel and submit hardcopies to MSD. With regards to the vaccines, the epidemiology unit under MOH is expected to prepare realistic estimates covering the national needs through the MSMIS/PRONTO XI to MSD.
- (ii) **Ordering.** When ordering the vaccines, MSD places the order using the Purchasing Order Module of MSMIS/PRONTO XI. The stock control officers of the stock control branch translate the estimates into stock control cards and the final order including information on the item, quantity, expected delivery date etc., is prepared and recommended by the Assistant Director. The availability of financing is checked and cleared by the accountant. The purchase order is approved by the director MSD and forwarded to SPC.
- (iii) **Procurement (consignment and payment).** The main entity handling the procurement of vaccines will be SPC. SPC will also be responsible for arranging the transportation of the shipment to the country using a service provider.

35. SPC has an adequately staffed accounting department, stock operations department and inspection departments to conduct their operations. Typically, the SPC makes the payments using letter of credit but having the Ministry paying the supplier directly is also an option. SPC maintains its own accounts in accordance with International Financial Reporting Standards (IFRS) accrual basis of accounting more in line with a private sector entity. Accordingly, the financial statements comprise of an income statement, balance sheet, statement of cash flow, notes etc. In addition to the MSMIS/PRONO XI, SPC uses an accounting software AS 400 to records its financial transactions. SPC has its own internal audit unit. The external audit is conducted annually by NAO. NAO also has in place its own staff in the entity to ensure a continuous audit process. The latest NAO audit was unqualified. SPC has established an audit management review committee which meets at least every quarter and reviews the status of past audit observations.

36. SPC is connected to MOH and MSD through the MSMIS/PRONTO XI, through which it receives the approved purchase order from MSD. Upon arrival, the supplies and vaccines are dispatched to the MOH by SPC. As part of the process, a dispatch note, and invoice are issued to MOH and a Good Received Note (GRN) and a debit note is issued by MOH. In case of the project, it is expected that, for vaccines, ADB will make direct payments to the supplier.

¹⁴ The vaccination centers may be clinics, hospitals, or temporary structures set up for the purpose of the NDVP.

- (iv) **Storage.** When the vaccines are first received by MOH, they will be stored in the central storage of the Epidemiology Unit. Due to the importance and limited supply of the vaccine, the bulk of the vaccines will be stored at the central cold store units of MOH and only a limited quantity of the vaccines equal to a few days' vaccination needs will be transferred to the districts. From the MOH central storage, the vaccines will be transported to the network of 26 regional warehouses at district level called RMSD which are under MSD. The transfers will be managed through the MSMIS/PRONTO XI which will generate stock transfer voucher (STV) for each transfer. Each RMSD has in place store management practices to prevent stock outs, and wastage. Through the inventory handling module of MSMIS/PRONTO XI, MOH including the Epidemiology unit and MSD, can monitor the balance of available vaccine stock in the MOH central storage and each of the RMSD in real time.
- (v) **Distribution.** There are two systems to distribute supplies: Pull and Push. Under the "Pull" system, requests are made by line ministry institutions for a certain date and RMSDs and MSD organize dispatches. Under the Push system, which will be used for this project and the NDVP, the RMSD will on a periodic basis distribute the vaccines to the approximately 354 MOH divisional units for storage and further distribution or directly to the 2000–4000 vaccination centers where the vaccines will be administered. The MOH divisional units do not use the MSMIS but maintain manual vaccine ledgers which will make the collection and consolidation of data as well as reporting more cumbersome. As a result, it is recommended that as part of the program each MOH divisional units to the extent possible will adopt the MSMIS/PRONTO XI system for recording transfer and vaccine stock.

37. The distributed vaccines will not be stored at the vaccination centers and all unused vaccines will be returned to the MOH divisional units or RMSD at the end of the day. Each RMSD will conduct daily stock takes and ensure the following information can be centrally accessed through the system: (i) vaccines received, (ii) vaccines distributed, and (iii) balance. Pre-determined buffer stocks will be maintained at the RMSD level to avoid running out of stock. The MOH divisional units will conduct the same checks using manual systems.

- (vi) **Administration of the vaccine.** Dispensing and/or distribution officers are responsible for accountability of vaccines and are expected to practice stock control methods to prevent wastage and theft at the vaccination center level. In this regard, each center will maintain vaccine registers on the i) vaccines received by the vaccination center, ii) vaccines administered, and iii) the remaining balance to be returned to the RMSD. The vaccines administered to the vaccinee is expected to be supported by a written consent from the vaccinee. The vaccinee will also be provided a vaccine certificate as a proof of the received vaccine.

38. In addition to the MSMIS, the MOH has in place an e-NIP. e-NIP is a web-based system used for the routine vaccination programs and is managed by the Epidemiology Unit. The system provides aggregated vaccination data (such as number of children vaccinated and geographic area) for all vaccines administered in the routine vaccine program. Moreover, in February 2021, the Health Information Unit of the MOH in collaboration with WHO developed a real time COVID-19 Immunization Tracker. The tracker is expected to provide key beneficiary information related to the COVID-19 vaccination rollout such as sex, age, and geographic data as well as to track adverse effects following immunization. Furthermore, the tracker has populated data from the

elections register population by each administrative area, so anyone who has not reached for vaccination can be identified and traced during mop-up vaccine operations.

39. The project will facilitate interoperability and harmonization of these two vaccination monitoring systems (e-NIP and COVID tracker), and provide all immunization teams laptops, tablets, and routers to ensure access to internet at the vaccination center. This will help facilitate recording, tracking, and monitoring vaccines, and help comparison of financial and physical progress under the project and the NDVP. The Systems and controls of the vaccine supply and distribution cycle are illustrated further in Annex C.

40. In 2018, before the MSMIS was officially launched, NAO undertook a special audit on the process of supplying medical supplies by MSD and MOH. The objective of the special audit was to ascertain whether medical supplies for patient care service and curative service had been supplied in appropriate quantity, time, and cost during the period from 2011 to 2016. The report identified several issues including the following:

- (i) Non-issuance of Goods Received Notes (GRN) immediately after the receipt of medical supplies
- (ii) Failure in taking proper action to store and distribute medical supplies received as donations and aid;
- (iii) Weaknesses in the process of stock control;
- (iv) Tendency of expiry of medical supplies; and
- (v) Failure to expand the MSMIS.

41. However, with regards to vaccines, the report noted only the following:

- (i) An unregistered vaccine had been obtained from an unregistered supplier and the product had to be withdrawn from use due to failure of the relevant vaccine; and
- (ii) Another vaccine had been administered although its shelf life had expired.

42. Nevertheless, given the careful controls over the procurement of COVID-19 vaccine and the urgent vaccination schedule, the vaccine related risks identified by the special audit are not likely to occur as part of the NDVP implementation.

43. Regarding the MSMIS, the report found that in 2018 it had only been introduced to 55 hospitals and institutions, 26 regional drug stores, National Medicines Regulatory Authority, National Drug Quality Assurance Laboratory, and SPC, whereas it had not been introduced to the 566 government hospitals under the Provincial Councils. Moreover, only 48 hospitals with the MSMIS had computerized the information on receipts of stocks of medical supplies to the stores and issue of stocks therefrom while the information up to the consumption of stocks issued from stores had not been computerized.

44. MSD and MOH are taking actions to address the audit recommendations which are monitored through its audit review committee and the MSMIS/PRONTO XI, officially launched in 2018, has since been rolled out to an increasing number of entities, However, some medical facilities and MOH divisional units in the periphery still use manual systems or may not use the MSMIS to its full capacity.

45. **Transportation.** Transportation will be handled by the Epidemiology Unit to the RMSDs and thereafter to the MOH divisional units based on the request of the Epidemiology Unit. The

bulk of transportation will be done via road networks. Additional trucks will be procured and added to the MSD, RMSD refrigerated trucks fleet. The Epidemiology Unit will be responsible for overseeing the delivery during the vaccine deployment period.

46. **Cold Storage.** An assessment¹⁵ of existing cold chain capacity at different temperature levels was conducted and capacity to handle the expected vaccine inventory under the NDVP was assessed as satisfactory. No capacity assessment has been made of third-party storage facilities as the volume and type of vaccine to be procured is within the capacity level of the MOH. MOH has plans to procure or make more storage facilities available at the central and regional hubs.

47. AstraZeneca or other COVID-19 vaccine total capacity required for 20% of the population is 9,254 liters and the remaining cold room capacity for vaccine storage for COVID-19 vaccine in temperature range plus 2–8° Celsius is 62,712 liters. NDVP states that the country's existing capacity of vaccine storage at plus 2–8° Celsius is adequate for vaccines with similar products and packing specifications stored at this temperature range.

48. **Security.** A high-level Presidential Task Force has been appointed by His Excellency the President to oversee the planning and implementation of the COVID-19 vaccination program in the country. The Epidemiology Unit should ensure efficient vaccine distribution to the 26 RMSDs and the 354 MOH divisional units. An officer accountable for security should be appointed at every distribution point to ensure vaccines are counted, securely stored, and monitored. There were no pilferage incidents recorded in the past. The Epidemiology Unit is responsible for ensuring the vaccines are received by the required population in the country. NDVP states that, non-health sectors (military, police, state security, other government – state community service groups, developing partner organizations, other NGOs, community leaders, religious leaders, and political leaders) will work with MOH at different levels to support the vaccination campaign, adhering to National Immunization guidelines.

49. Manual systems are used for data recording at each level. A 'vaccine movement register' is maintained in a transparent manner and accountability is given to officers at each level. Used vaccines and returned vaccines are documented from district level to clinic level. Clear guidelines are given by the epidemiology unit. There were no major risk of data breaches or data losses reported other than inherent risk of manual registers being misplaced. The Epidemiology Unit ensures an efficient vaccine inventory management, monitoring and surveillance system in the country.

50. **Deployment.** The Ministry of Health is responsible for some of the most important aspects of the program deployment and delivery, including decision for vaccination, regulatory mechanism for vaccine registration, identification of the target population, cold chain and supply chain gap analysis, readiness to address vaccine safety issues, and monitoring and evaluating the vaccination. Considerable levels of human resources will be required at the local level to support the vaccine deployment. The Special Presidential Task Force has capacity for administering the vaccines. Directors are requested to identify adequate human resources for vaccine deployment. Already trained public health and hospital immunization staff are retrained. The inbuilt system of supervisory categories is mobilized and enhanced for the vaccination program to ensure effective, timely, and supportive supervision.

¹⁵ Assessed by the Epidemiology Unit of the Ministry of Health, Sri Lanka in January 2021.

51. **Data Management.** The national deployment plan indicates that data on the vaccination will be entered into a web based 'COVID-19 vaccination' in 'e-NIP' system of Epidemiology unit, Ministry of Health by each hospital based on different category vaccinations. At the discussion with the officials of Epidemiology unit, it was revealed that there are no IT systems used in this process at the clinic/vaccination center level. As per the established practice medical officer at the vaccination center enters the daily doses usage in number to the e-NIP system.

52. The MSD records the vaccines in the MIS (MSMIS/PRONTO) system when they arrive to the country and the vaccines are stored in the Epidemiology unit cold rooms. Epidemiology unit can monitor, through the MSMIS, the delivery of the vaccines up to the RMSDs. Epidemiology unit will use a combination of the MSD MIS and prevailing manual system in monitoring the vaccine deployment.

53. Based on the readiness assessment and the track record in past vaccination campaigns, the existing MOH infrastructure will be sufficient to execute the planned vaccination campaign against COVID-19. A communication strategy funded by World Bank resources is being implemented by UNICEF in quarter one of FY2021.

54. **Supply chain human resource management.** The deployment plan indicates the staff required for the rollout of the vaccine nationwide. For satisfactory service, each clinic will need a 'set of Seven' people. A medical officer, two vaccinators, two persons at the registration desk, one person AEFI area and one clinic assistant. Additional support of non-health workforce, military police" Grama Niladhari", "Samadhi Niladhari" from different sectors will be identified and mobilized to recognized eligible target persons and to direct them for vaccination.

55. For vaccine deployment at the local level, 'vaccine movement registers' will be maintained by all clinics. RMSDs level and MOHs maintain vaccine ledgers which should reconciled every 24 hours. The Epidemiology Unit continuously monitors the stock movements in districts. At the national level, the Chief Epidemiologist reviews the daily balance sheet of the vaccine availability in the country.

56. **Accounting, oversight, and audit.** The NDVP is expected to be financed through externally financed projects and as a result, each project will prepare their respective project financial statements in accordance with Sri Lanka Public Sector Accounting Standards - accrual basis of accounting which will be audited annually by the National Audit Office. Moreover, NAO will conduct its regular financial and compliance audits of MOH. In cases of fraud, NAO will report to the Chief Accounting Officer of MOH or MOF, and the Auditor's reports will be discussed at the Committee on Public Accounts (COPA) committee of parliament in line with MOH accounts.

57. NAO has a Special Services Unit which is tasked to conduct a performance audit on special programs and projects and a separate special investigations unit. NAO confirmed that they have adequate staff resources to undertake the performance audit of NDVP. In addition, the financial audit team of NAO will provide support to the performance audit team in conducting the audit. NAO normally decides the audit plan before the start of the calendar year but mid-year revisions to the audit can be made based on new priorities. The performance audit should be conducted once a year to ensure timely information. However, linking the performance audit to the fiscal year may not be feasible. The performance audit report is to be submitted to ADB within 30 days after it has been issued by NAO. The indicative performance audit objective, scope and timing as discussed with NAO as part of the mission are outlined as part of Annex E. Subject to successful loan negotiations and the government's agreement, NAO and ADB will continue the discussion on the details and the way forward.

58. **Recommendations.** Based on the analysis above, it is important that all entities, including MOH, RMSD, MOH divisional units and hospitals, receiving and storing vaccines under the NDVP undertake the following: (i) implement the MSMIS/PRONTO XI system and use it for recording transfer of vaccines stock; (ii) maintain up-to-date vaccine stock records and ledgers and undertake daily vaccine stock count and reconciliation with the balance as per the vaccine records and ledgers; and (iii) ensure frequent, effective, and timely reporting to the Epidemiology Unit and ensure continuous inspections and internal audits to review processes, procedures, and controls in place. In addition, it will be important that all vaccination centers adopt the COVID-19 Immunization Tracker to facilitate the comparison of financial and physical progress under the project and the NDVP. Furthermore, in addition to annual audit of project financial statements, performance audits conducted by NAO will help to identify inefficiencies or weaknesses in the distribution chain and in the related systems and controls so that these can be systematically addressed.

V. PROJECT FINANCIAL MANAGEMENT ASSESSMENT: MINISTRY OF HEALTH AND ONGOING ADB-FINANCED PROJECT HEALTH SYSTEM ENHANCEMENT PROJECT

59. **Overview.** MOH is a cabinet ministry of the Government of Sri Lanka. The Ministry is headed by the minister of health and supported by state ministers. The high-ranking officials include the Secretary (ministry of health) Director General of Health Services, Separate Deputy Director Generals for investigation, admin, logistics, etc. as well as a Chief Finance Officer. The MOH is responsible for policy formulation, health planning, monitoring and supervision of services related to preventive, promotive, curative, and rehabilitative services. It also provides technical guidance to the provincial health management and ensures continued availability of medical and non-medical supplies and human resources.

60. **Organization and Staffing.** The Finance and Accounts section in the MOH is headed by the chief financial officer I (CFO), who is assisted by CFO II and CFO III. CFO I is the overall in-charge for all finance and accounting related activities in the MOH. CFO II is responsible for hospital accounts, payments and accounting related activities in all accounting units. A team of accountants assists the CFO II. CFO III is responsible for stock verification, budgeting, and book-keeping. A team of chief accountants and other accountants assists the CFO III in discharging her responsibilities. The accountants working in MOH are from Sri Lanka Accountants Service.

61. **Past performance in implementing ADB assisted projects.** MOH is currently implementing the HSEP financed by ADB and AIIB and for this purpose a PMU and four PIUs have been established. Overall, the PMU has performed adequately with regards to ADB's FM requirements. At the time of the assessment the project has submitted two audit reports of which the first one was submitted with a minor delay. The audit was conducted by NAO in accordance with SLAS /INTOSAI standards on auditing. The auditor issued an unqualified opinion on the project financial statement (PFS), the use of funds for the intended purpose as well as on the use of (Statement of Expenditure) SOE and the advance fund procedures. No outstanding audit observations have been noted to date. Moreover, the project has implemented almost all the actions outlined in the agreed FM action plan including the recruitment of an internal auditor, procurement of an accounting software, set up of a separate fixed asset register, etc.¹⁶ In addition,

¹⁶ The action of engaging an external FM consultant to support the project was removed and one full time accountant position in one of the four PIUs (Uva) is still vacant.

the PMU is also submitting quarterly progress reports in a timely manner and in the format required by ADB.

62. Given to the urgency of the COVID-19 vaccination campaign, as well as the adequate track record explained above, the existing PMU and its FM systems and flow of funds structure of the HSEP will also be used for the proposed project with necessary modifications. Accordingly, the PMU will be responsible for requesting budget allocations, maintaining separate books of accounts for the project, preparing and executing payments, for preparing financial reports and withdrawal applications to be submitted to ADB and ensuring annual audit of the PFS and submission of the APFS to ADB in a timely manner.

63. **Staffing arrangements in the PMU.** Currently the PMU is adequately staffed and includes a finance manager and two finance officers. The contract of the financial staff is for one year at a time and renewal is based on satisfactory performance. The PMU account staff have received regular training and support from ADB and as a result they are familiar with ADB's financial reporting and audit requirements and disbursement procedures and systems (including CPD and LFIS).

64. To strengthen the FM capacity of the PMU, it is recommended that an additional accountant is hired to the PMU and that an FM expert is engaged to support with the preparation of WAs, financial reports and ensuring timely submission of APFS to ADB. Moreover, the PMU must be supported by the accounts and administrative staff of MSD and the Epidemiology Unit in generating physical vs. financial progress reports and other relevant information under the NDVP.

65. **Budgeting.** The NDVP was not included in the 2021 budget or in the 2021–2023 MTEB estimates. However, the approved budget includes a provision for providing a supplementary allocation for COVID-19 as required. Furthermore, MOF has provided NDVP with budget inputs and a special allocation can be approved through consultation with the Cabinet of Ministers. In addition, the external resource department of MOF has approved the utilization of external support to finance the NDVP. In accordance with the government regulations, once a project is approved a separate budget line is created for the project¹⁷ and funds are allocated. Nonetheless, until the external support is mobilized, funds allocated to the State Ministry of Production, Supply and Regulation of Pharmaceuticals¹⁸ can be used for financing the NDVP. In case these funds would need to be allocated from the state ministry to MOH, the government has agreed to transfer the budget through the budget code 208, which is the common practice from transferring funds from one budget holder to another.

66. At the PMU level, there is a well-defined budgeting system in place and project budgets are prepared with sufficient detail and they include physical and financial targets. Actual expenditures are compared with budgeted amounts on a frequent basis and budget variations need to be approved in advance. The approval and oversight of the budget are the responsibility of the project finance manager, Project Director, Chief Finance Officer of MOH, and Department of National Budget. The budget preparation cycle for the upcoming year starts in August, the draft budget is submitted to MOH in October for review and subsequently it is approved by MOF as part of the budget discussions in November. Budget revisions and supplementary budgets are normally approved in June.

¹⁷ For example, the ADB financed Health System Enhancement Project has a budget code of 111/02/13/147.

¹⁸ Under the budget head 423/1/02/001 (Medical supplies purchased through State Pharmaceuticals Corporation), approximately \$174 million have been allocated for medical supplies in 2021.

67. Based on the above, the adequacy and timeliness of budget release including counterpart funds will need to be monitored by ADB through quarterly project progress reports (QPRs) to be prepared by the PMU. In addition, the following assurances and actions are required from the government as part of the loan agreement and the project administration manual: (i) sufficient counterpart funds are provided to the project from its budget for each fiscal year and in a timely manner, and (ii) all entities receiving equipment under the project will be required to maintain sound asset management practices including an asset register and conduct periodic inventories.

68. **Flow of funds.** The proposed flow of funds is expected to largely follow the established arrangement for the ongoing HSEP. Accordingly, the PMU will, through MOH, request the transfer of government funds as per the approved budget. The counterpart funds will be deposited to a counterpart funds account maintained in a commercial bank. To facilitate the cash flow of the government, the MOH through MOF will establish an advance account in USD at the Central Bank of Sri Lanka in the name of the project. In addition, a sub advance account in LKR will be established in a commercial bank and operated by the PMU. In case larger amounts need to be paid to the contractors, the PMU will submit withdrawal applications to ADB for direct payment. Since the PMU is currently implementing an ADB financed project its accounts staff has valuable experience with ADB's disbursement procedures including the operation of the advance account and statement of expenditure procedures. However, the assessment noted that the PMU sometimes experiences delays in receiving counterpart funding, especially for expenditures in USD. As this may have serious implications on implementation, it is recommended that ADB finances 100% of the project expenditures related to the vaccines and imported medical equipment while the government will mainly finance local taxes. Section VI of the assessment provides a more detailed description of the disbursement arrangements. A fund flow chart is included in Annex A.

69. **Accounting.** MOH and PMU maintain their books of accounts with Sri Lanka Public Sector Accounting Standards (SLPSAS) accrual basis of accounting and government rules and regulations which are well documented. The government financial regulations provide a clear segregation of duties. All invoices are stamped paid and dated and duly approved. Moreover, in accordance with the government policy the financial records are kept for at least five years.

70. **Contract management.** PMU maintains a register of contracts which includes the major milestones, contract value, disbursement amount and outstanding balance. Under the proposed project it is expected that the SPC will undertake the procurement under output 1 (vaccines, syringes, etc.) while the PMU/MOH will undertake the procurement activities under output two, three and four. It will be important that PMU actively coordinates with MSD and SPC to ensure and the procurement unit of MOH to ensure the register of contracts is up to date.

71. **Fixed Asset Management.** In general, there is scope for improving the fixed asset management practices as the fixed asset registers may be maintained manually although a fixed asset module is available in the CIGAS. The use of the Fixed Asset Register module in CIGAS is mandatory according to government regulations but as it still faces some technical problems some entities and hospitals still maintain manual asset registers.

72. MOH maintains a fixed asset register which is updated monthly. All assets are labelled and are subject to annual physical verification. The physical inventory is reconciled with the fixed asset register annually and discrepancies are analyzed. The disposal of assets requires approval and is subsequently documented. Under HSEP, a fixed asset register is maintained by the PMU until the assets are handed over by the PIUs to the hospitals. The hospitals maintain manual

inventory books and confirm the receipt of the equipment to the PMU by issuing a receipt order referring to the inventory book page.

73. For medical supplies and vaccines there is an advanced computerized system (MSMIS/PRONTO) in use by Epidemiology Unit and MSD up to the 26 RMSDs which is expected to be used under the NDVP. However, it has not been rolled out to all entities involved in the storing and distribution of vaccines and some entities may end up recording the vaccines in manual ledgers. As a result, the Epidemiology unit will need to collect and consolidate information from the MSMIS/pronto XI covering the central storage and the 26 RMSDs as well and from manual vaccine ledgers covering from the MOH Divisional Units to get the overall vaccine balance. Although, the existing mix of manual and computerized system is well established and has a good track record with vaccine campaigns in the past, it may not be an optimal solution given the scale and complexity of the NDVP. It is noted, that under the NDVP MOH will keep the bulk of the vaccine in central storages covered by the MSMIS and only a supply of a few days' requirement will be transferred to the provinces. The system is assessed in more detail in section IV above under subsection "Vaccine supply and distribution systems and cycle".

74. **Financial reporting.** PMU will prepare quarterly progress reports (QPRs) and annual financial statements in a format agreed with ADB. The latest QPR, for HSEP, was submitted in February 2021 and included the following important information: (i) contract awarded and contracts to be awarded; (ii) quarterly financial progress (disbursement); (iii) cumulative financial progress; (iv) status of final accounts and audit report; (v) status of PMU and PIU staffing including FM and accounts positions; (vi) implementation progress, physical progress, major project problems, and proposed actions; (vii) status and compliance with legal covenants; (viii) status of financial management action plan; and (ix) reconciliation of project books and ADB disbursement records.

75. As part of the vaccine assistance project, PMU must ensure effective physical vs financial reporting in the quarterly progress reports. As a result, the PMU must coordinate closely with the Epidemiology Unit to obtain the following information: vaccine doses ordered, vaccines doses received, vaccine doses administered, and available vaccine doses stock and balance. Information on any reconciliation items such as vaccine wastage must also be obtained and reflected in the report.

76. HSEP project financial statements are prepared in accordance with Accounting Standards (SLPSAS) accrual basis of accounting. The target date for preparing the PFS is two months after the end of the fiscal year. The format of the PFS follows the standard format used for most externally financed projects in Sri Lanka and included the following: (i) statement of financial position; (ii) statement of financial performance; (iii) statement of cash flow; (iv) statement of advance account reconciliation; (v) statement of budgeted vs actual expenditures; (vi) statement of disbursement; and (vii) notes. ADB's audit review noted some reconciliation issues between the APFS and the ADB's disbursement records¹⁹ and as a result the project is now including a reconciliation report as part of the QPR. These arrangements and formats will also be adopted for the proposed project with necessary modifications.

77. **Internal audit.** MOH has an internal audit unit which covers all entities at the central level including the hospitals. Furthermore, the provincial councils have an internal audit unit covering all the sectors at the provincial level. The chief internal auditor of MOH has a direct reporting line to the Secretary of MOH and the Chief Internal Auditor in a province reports to the Chief Secretary.

¹⁹ As part of the APFS review.

This arrangement ensures the functional independence of internal auditors. However, the Internal audit units in MOH and across provinces are characterized by staff shortages and as agreed in the FM Action Plan of the HSEP, an additional internal auditor has been engaged under the project. The internal auditor conducts internal audit of the PMU and the regional PIUs. The internal audit is based on an internal audit plan and contains elements of financial, compliance and performance type audits. The internal auditor reports to the project director typically on a quarterly basis and reports contains a section on the status of past audit observations.

78. As part of the project, it is recommended that MOH ensures that all entities receiving assets or storing vaccines under the project (e.g., MOH, RMSD, MOH divisional units, selected hospitals, etc.) undertake frequent internal audits and inspections of the fixed asset management and inventory practices and systems to ensure proper controls are in place and timely information can be generated.

79. **External audit.** MOH is audited by the NAO. The latest financial audit publicly available covered FY2018 and the Auditor general issued a qualified opinion²⁰. MOH has in place an audit management review committee which meets every quarter to follow-up on the status of the audit observations. The committee also includes members from the NAO and the externally financed projects. In accordance with its mandate, NAO conducts the audit of the HSEP project financial statements. To date, HSEP has submitted two APFS covering FY2018 and 2019. The first audit report was received with a slight delay while the second APFS was received on time but only due to the COVID-19 blanket extension provided by ADB and therefore minor delays in submission of APFS may still be expected in the future, although the PMU is planning to have the audit completed by end of May (within five months after the end of the fiscal year). The audit was conducted in accordance with SLAS and the auditor issued an unqualified opinion on the PFS, the use of funds for the intended purpose as well as on the use of SOE and the advance fund procedures. The management letter contained some audit observations including: Project Steering Committee had not met as often as required, delays in procurement process, board surveys related to PPE had not been completed on time, the human resource development committee had not conducted the required meetings, etc. The audit observations are being resolved typically before the next audit and the PMU is also included in the quarterly audit management review committee meetings. At the time of the FMA all audit recommendations have been implemented.

80. In accordance with ADB's requirements, the audit arrangements of HSEP will also apply to the proposed project and as a result the PMU will cause the project financial statements to be audited by NAO and the APFS and the Management Letter will be submitted to ADB within six months after the end of the fiscal year. However, given the complexity of the activities, it is recommended that, in addition, to the (financial) audit of the project financial statements, NAO also undertakes annual financial, compliance and performance audits of the National COVID-19 deployment and vaccination plan.

81. **Information systems.** MOH records its transactions in a computerized accounting and budgeting system, the CIGAS software, which is expected to be replaced by ITMIS in 2022. In addition to using CIGAS, the MOH accountants still maintain manual books of accounts in parallel, which may lead to unnecessary effort in reconciliation. In accordance with the agreed FM action

²⁰ The audit observations included: Non-compliance with government regulations and circulars, some misstatements in the statement of cash flow statement and statement of financial position, certain registers were not up to date, improper and unauthorized transactions, etc. There were no vaccine related audit observations.

plan the PMU has installed a standalone software (Quick books²¹) to record the project financial transactions. Based on a report generated by the PMU, the project transactions are also input in the CIGAS software by the MOH accounting department. The PMU software can record expenditures by financing source, process data and generate some financial reports. However, manual intervention in excel is still required when generating the PFS in the agreed format. The accounting software can accommodate several different projects at the same time. Also, there is a separate system for capturing physical progress and the comparison of financial vs physical is done manually. The PMU has in place back up procedures and all data are stored online as well as in external hard drives.

82. It is important that the PMU makes the necessary modifications to the chart of accounts and accounting software to ensure separate books of accounts will be maintained. Moreover, it is important that PMU actively uses ADB's disbursement systems (LFIS and Client Portal for Disbursement) to monitor disbursements including direct payments and advances, replenishments and liquidation and conducts quarterly reconciliations between project records and ADB disbursement records to ensure all transactions have been duly captured and are accurately reflected in the financial reports.

VI. DISBURSEMENT ARRANGEMENTS

83. **Disbursement Arrangements for ADB Funds.** The ADB loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended),²² and detailed arrangements agreed upon between the government and ADB. The project may make use of the Advance Fund, direct payment, reimbursement procedure and commitment procedure. The MOH through its PMU will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting all supporting documents, and (iv) preparing and sending withdrawal applications to ADB. Online training for project staff on disbursement policies and procedures is available.²³ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

84. **Advance fund procedure.** Two separate advance accounts, one for the ADB PIC loan and one for the ADB RRC loan, shall be established by Treasury Operations Department of MOF in the Central Bank of Sri Lanka and maintained by the PMU. The currency of the advance accounts is US dollar. In addition, two separate sub-advance accounts, one for the ADB PIC loan and one for the ADB RRC loan, in local currency (LKR) will be established by Treasury Operations Department of MOF at a commercial bank and maintained by PMU. The advance accounts and the sub-advance accounts are to be used exclusively for ADB's share of eligible expenditures. The PMU, which maintain the advance and the sub-advance accounts in its name, is accountable and responsible for proper use of funds from the advance accounts including advances to the sub-advance accounts. Moreover, a separate account shall be maintained for counterpart funding.

85. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months. The MOH-PMU may request for initial and additional advances to the advance account based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed

²¹ Quick Books is also used by World Bank financed projects implemented by MOH.

²² The handbook is available electronically from the ADB website (<http://www.adb.org/documents/loan-disbursement-handbook>).

²³ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning

through the account for the forthcoming 6 months²⁴. Supporting documents should be submitted to ADB or retained by MOH-PMU in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) when liquidating or replenishing the advance accounts.

86. **Statement of expenditure (SOE) procedure.**²⁵ The SOE procedure may be used for reimbursement of eligible expenditures and liquidation of the advance account. The ceiling of the SOE procedure is the equivalent of \$100,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. MOH-PMU will be responsible for preparing liquidation and replenishment of the advance fund. Procedures for establishing and operating the advance account and SOE procedures are detailed in the ADB's Loan Disbursement Handbook (2017, as amended from time to time).

87. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the ADB's Loan Disbursement Handbook (2017, as amended from time to time). The borrower should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's Client Portal for Disbursements system is mandatory for submission of withdrawal applications to ADB.²⁶

88. **Disbursement conditions.** No withdrawals shall be made from the Loan Account for financing Eligible Vaccines until ADB has received a letter from the Borrower confirming (i) which COVID-19 vaccine(s) have been selected to be procured using the proceeds of the Loan; (ii) which of the eligibility criteria¹³ in the definition of Eligible Vaccine has been satisfied in respect of the COVID-19 vaccines to be procured; and (iii) that the Eligible vaccines have received all necessary authorizations of the Borrower, and have been authorized by NMRA and the NITAG of Sri Lanka and any other relevant regulatory authorities for distribution and administration within the territory of the Borrower, and based on the information provided in the aforementioned letter, ADB has notified the Borrower that the COVID-19 vaccines to be procured are designated as Eligible Vaccines.

89. **Disbursement Arrangements for Counterpart Funds.** All disbursements under government financing will be carried out in accordance with the regulations of the GoSL and accounting principles acceptable to ADB. MOH-PMU is responsible for requesting budgetary allocations for counterpart funds and establishing and maintaining a separate account for counterpart funding.

VII. RISK DESCRIPTION AND RATING

90. The FMA has considered two types of risks, (i) inherent risks, i.e., risks outside the direct control of the entity financial management, and (ii) control risks, i.e., risks concerning the internal functioning and control of the entity's accounts division. The following key risks have been identified. (Table 2).

²⁴ Estimate of Expenditure sheet is available in Appendix 8A of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

²⁵ Statement of Expenditure forms are available in Appendix 7B and 7D of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

²⁶ The Client Portal for Disbursement facilitates online submission of withdrawal application to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online.

Table 2: Financial Management Inherent and Control Risk Assessment

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Inherent Risk		
1. Country Specific	<u>Moderate</u> Overall, the government has adequate PFM systems in place. However, there is scope for improving compliance with the national systems and regulations as well as the FM capacity at various levels.	ADB to closely monitor the ongoing PFM reforms and initiatives including the launch of the ITMIS.
2. Entity-specific	<u>Moderate</u> MOH has an established track record in conducting vaccination programs and adequate procedures and systems are in place. Moreover, the MOH is currently implementing an ADB financed project with a satisfactory track record.	The PMU and the FM arrangements of the ongoing project will be used for the proposed project with necessary modifications. The project will also further strengthen the capacity of MOH to monitor the implementation of the (NDVP) for COVID-19 Vaccines.
3. Project specific risk	<u>Substantial</u> The number of transactions is expected to be limited. However, the scale and geographical coverage of the activities as well as the number of actors involved in implementation may pose challenges.	Project specific mitigation measures are outlined in the section below.
Overall Inherent Risk	Substantial	
Project Risk		
1. Implementing entity	<u>Moderate</u> The PMU is already set up, fully staffed, and has an adequate FM track record in complying with ADB's FM and disbursement requirements. However, the PMU may not have the adequate capacity to cope with the additional workload.	The capacity of the PMU may need to be further strengthened. Efficient coordination and flow of information between the different entities involved in the project implementation must be ensured.
2. Fund flow	<u>Substantial</u> The budget allocation for the project has not been transferred to MOH yet which may cause delays in project implementation. Moreover, during the implementation, government counterpart financing may not be released on time which may cause disruptions.	MOF to provide a firm commitment that budget allocation is transferred to MOH by loan effectiveness. MOF to also provide assurances that counterpart funds will be released in a timely manner. The availability of counterpart financing will be monitored regularly through quarterly progress reports. In addition, the direct payment mechanism will be used for major foreign currency payments for contractors and suppliers for ADB share.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
3. Staffing	<p style="text-align: center;"><u>Moderate</u></p> <p>The number of financial staff in the existing PMU may not be sufficient to manage the additional workload of the project.</p>	<p>An additional accountant and an FM expert to be hired to support the PMU. Moreover, continuous training to be provided in ADB's financial management requirements and systems</p>
4. Accounting policies and Procedures	<p style="text-align: center;"><u>Substantial</u></p> <p>MOH and the PMU maintain their accounts in accordance with national accounting standards (SLPSAS) which are consistent with international accounting standards. There may be scope for strengthening the asset management systems and practices of the various entities receiving and storing the medical equipment and vaccines.</p>	<p>The PMU will maintain separate books of accounts for the proposed project in accordance with SLPSAS accrual basis of accounting.</p> <p>MOH, MSD/RMSD and the Hospitals receiving equipment and/or storing the vaccines under the project/NDVP to ensure sound asset management practices are maintained at all times including: (i) the use of computerized asset register, (ii) frequent inventories and daily vaccine stock take, and (iii) regular reconciliations of the fixed asset register and physical inventories as well as effective and timely reporting to MOH.</p>
5. Internal Audit	<p style="text-align: center;"><u>Moderate</u></p> <p>MOH and SMPPSR/MSD have internal audit units in place. However, the internal audit units may not have adequate capacity to audit the internal control system and practices for implementation of the project/NDVP which may lead to inadequate fixed asset management and vaccine storage practices going undetected and lost inventory.</p>	<p>The Internal audit units of the MOH, and SMPPSR/MSD to prioritize regular internal audits of the fixed asset management and inventory practices, procedures and systems related to the project/NDVP to ensure proper controls are in place to safeguard the assets. Audit observations and internal control gaps must be promptly resolved.</p>
6. External Audit	<p style="text-align: center;"><u>Substantial</u></p> <p>Minor delays in submission of Audited project financial statements to ADB.</p> <p>Given the importance and scale of the NDVP for COVID-19 vaccines, a regular project financial audit may not be sufficient to provide the required assurances.</p>	<p>The PMU must liaise with NAO to ensure the proposed project is part of NAOs annual audit plan and that the Audit process is commenced in a timely fashion. The audit observations to be resolved in a timely manner. The status of audit observations to be included in the quarterly progress reports.</p> <p>NAO to conduct annual financial, compliance and performance audits of the execution of the NDVP for COVID-19 vaccines.</p>
7. Reporting and Monitoring	<p style="text-align: center;"><u>Moderate</u></p>	

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
	Inadequate financial reports or delays in financial reporting may cause bottlenecks and allow inefficiencies to go unnoticed.	<p>Comprehensive financial information to be part of the quarterly progress reports in a format agreed with ADB within 45 days after the end of each quarter. The PMU is to prepare the project financial statements within two months after the end of the fiscal year to ensure auditors can start the audit process on time.</p> <p>Detailed financial vs physical progress reports and inventory reports to be generated at least on a weekly basis to ensure bottlenecks and inefficiencies are identified in a timely fashion.</p>
8. Information Systems	<p style="text-align: center;"><u>Substantial</u></p> <p>MOH has in place the government accounting system (CIGAS) and the PMU has installed a standalone software for recording project transactions. A mix of digital and manual systems are being maintained for tracking the vaccine stock and recording fixed assets which may lead to cumbersome reporting and reconciliation exercises as well as inefficient reporting.</p>	<p>The PMU to modify its accounting software to accommodate the proposed project and its financing structure and make use of the ADB loan information services (LFIS) to reconcile ADB disbursement records with project records on a quarterly basis to ensure all withdrawal applications have been correctly reflected in the project records and financial reports.</p> <p>Each entity receiving equipment and/or storing vaccines under the project/NDVP must ensure computerized asset management and vaccine stock management systems are implemented.</p>
Overall Project Risk	Substantial	
Overall (Combined) Risk	Substantial	

ADB = Asian Development Bank, APFS= audited project financial statements, FY = fiscal year, LFIS=loan financial Services information system, MSD= Medical Supply Division, NAO=National Audit Office, NDVP = National Deployment and Vaccination Plan for COVID-19 Vaccines, PMU = project management Unit, PFS = project financial statements, QPR= quarterly progress reports, RMSD = Regional Medical Supply Division, SLPSAS = Sri Lanka public Sector accounting Standards, SMPPSR = State Ministry of production, Supply and regulation of Pharmaceuticals

Source: Asian Development Bank.

VIII. PROPOSED FINANCIAL MANAGEMENT TIME BOUND ACTION PLAN

91. To address the identified FM risks the following actions outlined in the table below have been agreed with the government.

Table 3: Proposed Financial Management Action Plan

Key Risk Area	Risk Mitigating Activity	Timeline	Entity
Staffing and FM capacity support	Appoint an additional accountant and engage an FM expert to support the PMU.	By loan effectiveness	MOH/PMU
Staffing and FM capacity support	Provide training to PMU staff in ADB's FM and disbursement procedures and systems.	By loan effectiveness and annually throughout project implementation	ADB
Staffing and FM capacity support	Provide a refresher training in asset management, and inventory and vaccine stock practices including the use of computerized systems to all entities receiving equipment and/or storing the vaccines.	By loan effectiveness	MOH, MSD/RMSD, MOH Divisional Units & Hospitals
Flow of funds	Establish a dedicated budget code for the project and transfer the required budget allocation to MOH/PMU.	By loan effectiveness	MOF
Flow of funds	Ensure timely release of counterpart financing to the project.	Continuous	MOF/MOH
Accounting	Maintain robust asset management practices and systems including: i) the use of computerized asset and vaccine stock management systems, ii) maintain up-to-date fixed asset registers and vaccine stock records/ledgers and undertake daily vaccine stock count and reconciliation with the balance as per the fixed asset register and vaccine records/ ledgers and iii) ensure frequent, effective, and timely reporting to MOH.	Continuous	MOH, MSD/RMSD, MOH Divisional Units & Hospitals
Internal audit	Include the NDVP/ADB assisted project in the internal audit plan to ensure proper controls are in place to safeguard the vaccines and project assets. The internal audits are to include a follow-up of past audit observations. Material internal audit observations and status of recommendations are to be included in the Quarterly Progress Reports submitted to ADB.	Annual and update on status of observations every quarter.	MOH, MSD/RMSD & selected Hospitals
External audit	Coordinate with NAO to ensure the proposed project is part of NAO's annual audit plan; and the APFS is submitted to ADB by due date.	Annually and within 6 months after the end of the fiscal year	MOH/PMU& NAO
External audit	Conduct financial, compliance and performance audits of the execution of the NDVP. ²⁷	Annually, with submission to ADB by 30 days after approval by NAO.	NAO
Financial reporting	Generate financial vs physical progress reports and detailed vaccine stock reports	Weekly	MOH/PMU, with input from

²⁷ ADB will engage with the NAO to provide inputs to the performance audit TORs including the target dates of the performance audit as well as reporting deadlines. The Performance audit TORs are expected to be agreed and finalized by project inception.

Key Risk Area	Risk Mitigating Activity	Timeline	Entity
	to ensure bottlenecks and inefficiencies are identified in a timely fashion.		MOH (Epid unit) MSD/RMSD, MOH Divisional Units & Hospitals
Financial reporting	Include comprehensive FM information including detailed comparison of physical and financial progress, status of implementation of FM action plan, and status of resolutions of internal and external audit observations in the quarterly progress reports and submit to ADB.	Within 45 days from the end of each quarter	MOH/PMU
Information systems	Modify the accounting software to accommodate the proposed project and its financing and expenditure structure.	By loan effectiveness	MOH/PMU
Information systems	Ensure computerized fixed asset and vaccine stock management systems (e.g., MSMIS/PRONTO XI) have been implemented by all entities receiving assets and supplies as well as storing vaccines.	By loan effectiveness	MOH, MSD/RMSD, MOH Divisional Units & Hospitals

ADB = Asian Development Bank, APFS= audited project financial statements, FY = fiscal year, LFIS=loan financial Services information system, MSD= Medical Supply Division, NAO=National Audit Office, NDVP = National Deployment and Vaccination Plan for COVID-19 Vaccines, PMU = project management Unit, PFS = project financial statements, QPR= quarterly progress reports, RMSD = Regional Medical Supply Division, SLPSAS = Sri Lanka public sector accounting standards, SMPPSR = State Ministry of Production, Supply and Regulation of Pharmaceuticals.
Source: Asian Development Bank.

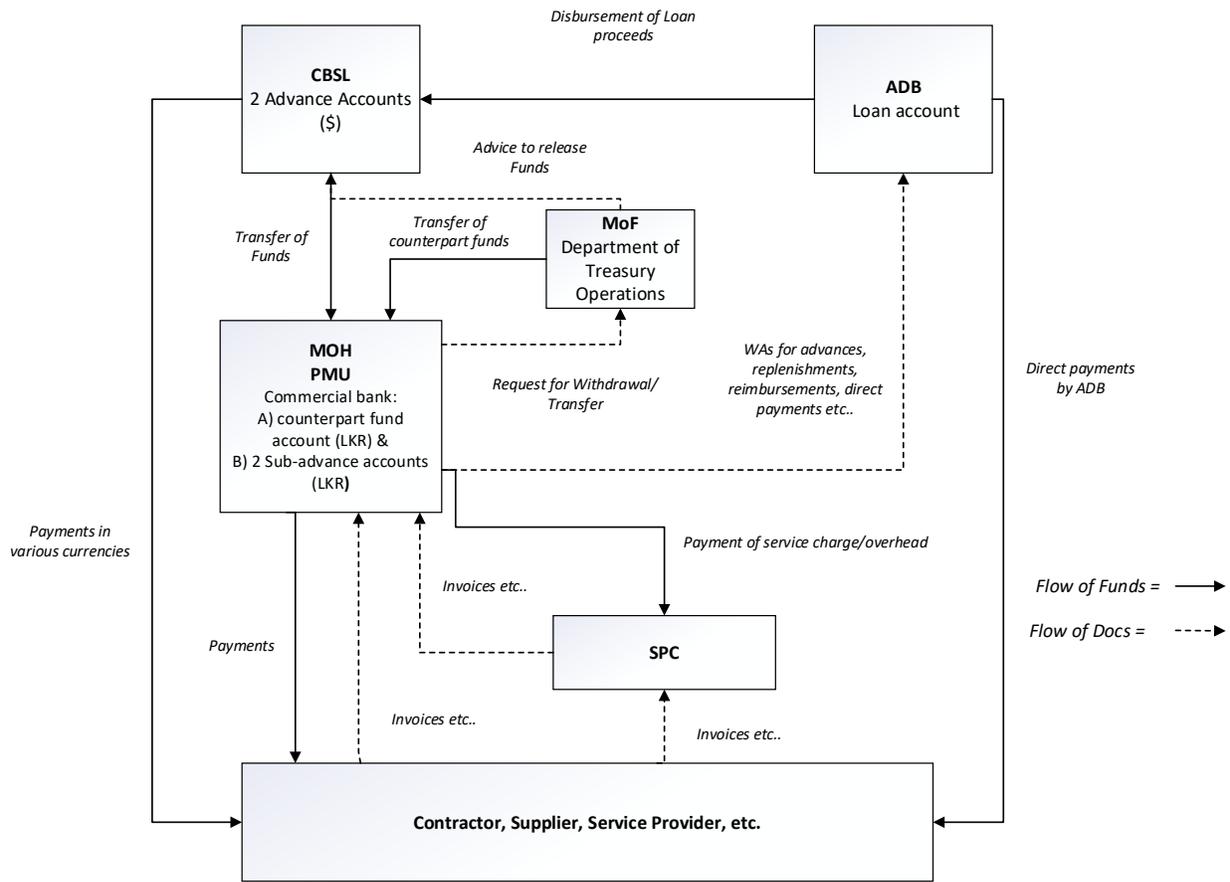
IX. SUPERVISION AND IMPLEMENTATION SUPPORT PLAN

92. To ensure sufficient knowledge in ADB's FM requirements, including procedures and related systems, the PMU will ensure that the new accounts staff engaged under the proposed project undertake the following actions within the first three months working with the project:

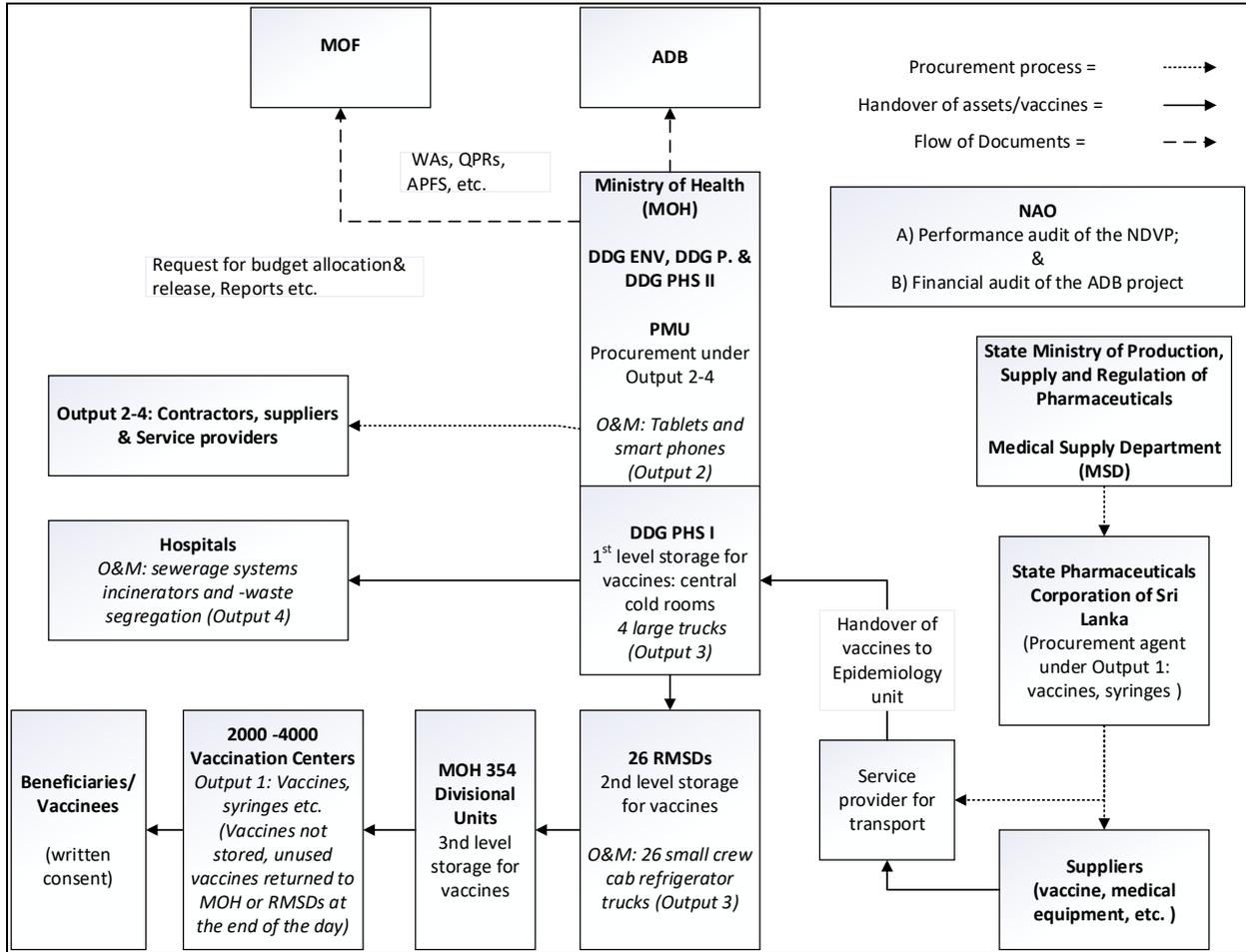
- (i) Become aware of the ADB and national anticorruption policy and whistle blowing mechanisms.
- (ii) Master loan agreement including the loan covenants and the relevant sections of the Project Administration Manual, as well as the ADB loan disbursement handbook.
- (iii) Obtain user and/or reader rights (as required) to ADB's systems including the Client Portal for Disbursement and the Loans information Service (LFIS).
- (iv) Complete the ADB Disbursement eLearning course.

93. In addition, PMU should on a yearly basis liaise with ADB to ensure participation in FM and disbursement training events organized by ADB in the country. Considering the risk assessment (Substantial Risk), the supervision process will include a desk review of financial information included in the QPRs and audited project financial statements as well as annual participation of an FM staff or consultant in review missions. Moreover, the review process may include working with other development partners and the government to develop TORs for the performance audit

Annex A: Flow of Funds



Annex B: Implementation Arrangements



Annex C: Vaccine Procurement and Distribution – Systems and Controls

Vaccine procurement, storing and distribution: Systems and Controls					
Distribution Process	Description	Supporting documentation	Asset management systems	Internal Controls /Reports	Oversight/inspection/ internal & external audit
<pre> graph TD SPC([SPC]) --> MOH[MOH/EPID unit Central storage] MOH --> RMSD[26 RMSD (Regional Drugstores)] RMSD --> MOH_Unit[354 MOH divisional unit] MOH_Unit --> DC[2000-4000 Vaccination centers] DC --> Vaccinee([Vaccinee]) </pre>	Procurement & transport of vaccines to the country, Handover of vaccines to MOH.	Bidding documents, Contract, invoices, dispatch note, etc.	MSMIS/ PRONTO	Procurement committee; Tender board; & Inspection department	Internal audit unit; External audit by NAO; SPC Audit management review committee;
	Main Storage of vaccines & distribution of vaccines to Regional drugstores/MSD	Debit note, Goods received note, & Stock transfer vouchers (system generated).	MSMIS/ PRONTO	Real time report on vaccines, received, distributed and balance. Physical inspections/stock count & reconciliation with system.	inspection unit/ MoH; Internal audits by Ministry IA unit; External audit by NAO; Audit review committee (ministry level)
	Storage of vaccines, distribution of vaccines ("push") to MOH divisional Unit or vaccination centers.	Goods received note, & Stock transfer vouchers (system generated).	MSMIS/ PRONTO	Limited vaccine stock (equal to 2-10 days needs). Real time report on vaccines, received, distributed & balance. Physical inspections/stock count & reconciliation with system.	Inspection unit, Internal audits by ministry IA unit; External audit & inspections by NAO; Audit review committee (ministry level)
	Limited Storage of vaccines. Distribution of vaccines to vaccination centers.	Goods received note, & Stock transfer vouchers, Vaccination Ledger; written consent	Manual vaccine ledgers . MSMIS/ PRONTO to be strongly recommended	Limited vaccine stock (equal to 2-4 days needs), Daily update of vaccine ledger, stock count and reconciliation	inspections by inspection unit/MOH Internal audits; External audit & inspection by NAO; Audit review committee (ministry level)
	Administration of vaccines. Vaccines not stored in DCs. Unused vaccines returned to the RDS.	Vaccination Ledger; written consent	Vaccine register/ledger (manual) & COVID-19 Immunization tracker (computerized system to be rolled out)	No storage of vaccine. Dispensing officers, Daily update of vaccination register, stock count and reconciliations; Use COVID 19 tracker system	Inspections; Internal audit (sample basis); & External audit by NAO (sample basis);
	Written consent provided by the vaccinee	Vaccine certificate issued to the vaccinee			

Annex D: Financial Management Expert Terms of Reference

Qualification

Financial Management specialist will preferably have:

- (i) a recognized professional accountancy qualification (e.g., CPA, CA or equivalent) or equivalent in related fields;
- (ii) an overall 10 years of working experience with 8 years of experience in project/program financial management and training/ capacity building including government accounting system; and
- (iii) experience in similar capacity and sound knowledge of Asian development Bank (ADB) procedures/policies and working on externally funded projects/programs financed by ADB or World Bank shall have added advantage.

Reporting

The position will report to the project director or equivalent.

Scope of Work

The objective of the services is to provide support the financial management capacity of the PMU/MOH implementing the ADB-assisted project to ensure:

- (i) all project funds are used for the intended purpose and with due attention to considerations of economy and efficiency;
- (ii) full compliance with ADB's financial management and disbursement requirements as outlined in the relevant sections of loan/grant agreements, project administration manual, and ADB's loan disbursement handbook, minutes of the loan negotiations, etc.; and
- (iii) ADB loan funds are made available for the project in a timely manner through timely preparation and submission of withdrawal applications in accordance with ADB disbursement handbook and collection and filing of all supporting documentation, as required.

Expected Tasks

The financial management specialist will support the PMU/MOH through the following tasks:

1. Accounting & Budgeting

- (i) Assist PMU/MOH in preparing annual budget estimates and in maintaining proper budget controls as well as in monitoring budget execution.
- (ii) Conduct an analysis of the financial execution of the approved budget (budget-to-actual by activity) as well as financial vs physical progress. Analyze and document any significant variations.
- (iii) Support the PMU/MOH in ensuring that separate accounts for the project are duly maintained in accordance with the applicable accounting standards and that receipts and expenditures are duly segregated by financing source (e.g., ADB and government funding).
- (iv) Support the PMU/MOH in improving the financial management systems including adjusting the Chart of Account and automating the financial reporting to the extent possible.
- (v) Support the PMU/MOH in ensuring that all payments are duly prepared, reviewed, authorized, and recorded in the accounting system correctly and in a timely manner, and all expenditure items meet the eligibility criteria as defined in the ADB financing agreement, and are supported by adequate documentation (invoice,

contracts, evidence of payments etc.) as outlined in ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

2. Disbursement & Flow of Funds

- (i) Assist the PMU/MOH in preparing withdrawal applications in a timely manner and in collection and filing of all supporting documentation in accordance with the relevant procedures outlined in ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), including expenditure reports from other entities and UN agencies if applicable.
- (ii) Support PMU/MOH in using the optimal disbursement procedures (reimbursement, direct payments, advance account etc.) and identifying and resolving disbursement bottlenecks in the flow of funds (if any).
- (iii) Support PMU/ MOH in ensuring all supporting documentation as outlined in the ADB's *Loan Disbursement Handbook* are filed in an organized manner to allow easy access to ADB staff and auditors.
- (iv) Assist the PMU/MOH to maintain a detailed Withdrawal Application register for ADB loan funds and a separate claim register for government funds to facilitate reconciliations.

3. Financial Reporting & Analysis

- (i) Conduct periodic analysis of the execution of the procurement and disbursement projections and provide analysis of the any significant variances between planned vs actual expenditures; Analyze and document any significant variations.
- (ii) Support the PMU/MOH in conducting (a) monthly reconciliations of all project accounts (including advance account and project); and (b) quarterly reconciliation of the project disbursement records and ADB's disbursement data available in the LFIS to ensure the correctness and completeness of the project records and financial reports/statements and (iii) quarterly reconciliation of PMU, MOH's, KVWSMB's and PMDO/FCGO's records to ensure project related transfers and receipts have been recorded correctly and consistently. Follow-up on any discrepancies to ensure timely resolution.
- (iii) Assist the PMU/ MOH in preparing financial information and analysis to be included in the quarterly progress reports in an agreed format to be submitted to ADB including a physical vs financial progress under the project.
- (iv) Assist the PMU/MOH in preparing separate project financial statements annually covering the activities financed under all the funding sources (e.g., ADB and government funding) in a format agreed with ADB.
- (v) Assist the PMU/MOH in preparing relevant progress reports to send to KVWSMB in prescribed templates and also in preparing financial reports as and when required.

4. Internal & External Audit

- (i) Support the PMU/MOH in ensuring that the project financial statements are audited and that the audit report, audited consolidated financial statements, and the management letter(s) are submitted to ADB in a timely manner.
- (ii) Support the PMU/MOH in the follow-up of internal and external audit recommendations to further improve the internal controls of the project.

- (iii) Support the PMU/MOH in ensuring that all financial records are orderly filed and stored physically safe location and an electronic back up is conducted regularly.
- (iv) Support the PMU.MOH with documents required for the Audit Committee 9or equivalent), if needed.

5. Financial Management Action Plan, Capacity Building, and other tasks

- (i) Support the PMU/MOH in implementing the Financial Management Action Plan (FMAP) as agreed with ADB and outlined in the Project Administration Manual;
- (ii) Support the PMU/MOH in understanding ADB's financial management and disbursement procedures and requirements and advising them on the existing ADB financial management resources available. Provide capacity building to new/rotating accounts staff to ensure continuity.
- (iii) Assist the PMU/MOH in implementing financial management related recommendations as agreed between the project and ADB during review mission/tripartite review meetings; and,
- (iv) Assist the PMU/ MOH in other tasks as assigned by the project management

Annex E: Tentative Performance Audit Objective, Scope, and Timing

1. **Audit objective, scope & used audit standards.** The audit objective would be the evaluation of the economy, efficiency, effectiveness, and the environmental impact of the NDVP and the audit would be conducted in accordance with International Standards of Supreme Audit Institutions issued by INTOSAI (ISSAI 3000-3200). The sub-audit objectives may include the following: (i) selection of suitable vaccines for Sri Lankans among various vaccines produced globally; (ii) economy of the procurement procedures of the vaccines; (iii) efficiency and effectiveness of distribution mechanism of the vaccines and reaching the vulnerable areas and groups; (iv) efficiency and effectiveness of the NDVP; and (v) outcomes of the NDVP. The final scope of the audit will be decided by the Auditor General and it will depend on the available resources, time frame, and the evidence available. The physical verifications will be based on the selected samples.
2. **Audit criteria and indicators.** NAO outlined that tentatively the following documents are expected to be used to set the audit criteria:
 - (i) NDVP for COVID-19;
 - (ii) WHO guidelines and regulations;
 - (iii) ADB Loan agreement and PAM and the World Bank loan agreement and PAD;
 - (iv) Procurement guidelines of Sri Lanka, ADB and World Bank as applicable;
 - (v) Guidelines and Circulars issued by Ministry of Health regarding COVID-19 Vaccination Program;
 - (vi) Action Plans prepared for this purpose;
 - (vii) Distribution Plan of the Vaccination;
 - (viii) KPIs and other Relevant indicators, Prepared by Epidemiology Unit of Ministry of Health regarding new cases, death cases, disease burden; and
 - (ix) Social and Economic indicators regarding the recovery rate of the country.
3. NAO further specified that when examining the Storage and Transportation of Vaccine the following indicators may be examined:
 - (i) Availability of storage and transport facilities as per the specific criteria;
 - (ii) Documentation and availability of data base;
 - (iii) Transportation; and
 - (iv) Storage facilities, transport facilities, and supervision.
4. When evaluating the effectiveness of the vaccination program the following results may be examined:
 - (i) The trend of new cases after the vaccination;
 - (ii) The trend of death cases after the vaccination;
 - (iii) Reduction of quarantine affairs/lock down areas;
 - (iv) Relaxation of travel restrictions; and
 - (v) Other indicators regarding the recovery rate of country:
 - a. Opening of Schools and Universities,
 - b. Normalization of Office and other workplaces, and
 - c. Normalization of Tourism and Transport.

5. **Timing.** The performance audit may conducted annually be divided into two or three parts depending on the actual progress of the program. The first part would be conducted after one year of the implementation of the NDVP and it would be looking at the procurement, distribution, and targeting of the vaccines and the second and third part would be conducted after the NDVP has been implemented for 2-3 years and would include a follow-up of the earlier audit recommendations as well as examining the effectiveness and the outcomes of the vaccine campaign.

6. **Suggested Next steps.** Once the ADB project has been approved, ADB will contact NAO and other development partners such as the WB to discuss the detailed audit TORs and reporting timelines. As a performance audit goes beyond the scope of only FM, it is important that technical, and procurement staff from ADB are also included in the process.