

HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project - 2017

The audit of financial statements of the HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2017 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 13(b) of the Grant Agreement No. 977- LKA-H-MOH dated 26 November 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, the Ministry of Health, presently Ministry of Health Nutrition and Indigenous Medicine is responsible for execution and implementation of the activities of the Project. The scaling up the national programme activities for the prevention, control and treatment of HIV/AIDS in Sri Lanka are the objectives of the Project. The estimated total cost of the Project amounted to US\$ 5,323,102 for intensive HIV/AIDS control for New Funding Model and the entire amount was agreed to be financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Project commenced its activities under the New Funding Model Component on 01 January 2016 and expected to be completed by 31 December 2018.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operations of the Project.

- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Funding Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Grant etc.
- (d) Whether the withdrawals under the Grant had been made in accordance with the specification laid down in the Grant Agreement.
- (e) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Grant Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statement of Expenditure (SOEs) submitted could be fairly relied upon to support to the application for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Grant Agreement had been complied with

2.2 **Comments on Financial Statements**

2.2.1 **Financial Performance**

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2017 amounted to US\$ 1.64 million equivalent to Rs. 250.08 million and the cumulative expenditure as at 31 December 2017 amounted Rs. 426.17 million. The expenditure for the year under review, expenditure for the preceding year and cumulative expenditure as at 31 December 2017 are summarized below.

Category	Expenditure for the year ended 31 December				Cumulative Expenditure as at 31 December 2017
	2017		2016		
	US\$	Rs.	US\$	Rs.	
Property, Plant and Equipment	125,779	19,031,556	59,415	23,567,844	42,599,400
HIV/AIDS control activities	1,515,474	231,049,381	1,045,856	152,517,188	383,566,569
Total	<u>1,641,253</u>	<u>250,080,937</u>	<u>1,105,271</u>	<u>176,085,032</u>	<u>426,165,969</u>

2.2.2 Cash Flow Statement

As per the Financial Statements presented for the years 2016 and 2017, position of the Cash Flow Statement is given below.

	<u>For the year ended 31 December</u>		<u>2016</u>	
	<u>2017</u>			<u>2016</u>
	US\$	Rs.	US\$	Rs.
Cash Flow from Operating Activities				
Cash received from foreign sources	878,933	134,000,000	627,442	91,500,000
Contribution from domestic sources	193,904	29,562,062	89,145	13,000,000
Direct disbursement from the Granting Agency	360,652	54,984,969	407,557	59,434,020
Cash received from other sources	-	-	288	42,000
Program expenses	<u>(1,515,474)</u>	<u>(231,049,381)</u>	<u>(1,045,856)</u>	<u>(152,517,188)</u>
Surplus/(Deficit) for the year	(90,955)	(13,866,957)	75,029	10,941,504
Depreciation	73,328	11,179,613	77,656	11,324,518
Gratuity for the year	1,908	320,582	-	-
Increase in payable balances	141,453	21,427,423	7,526	1,268,821
Increase in stocks	(191)	(29,105)	-	-
Increase in receivables	-	-	224	33,000
Foreign Exchange loss/gain	(732)	-	(1,020)	-
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Net Cash from operating activities	133,781	20,396,163	(159,415)	(23,567,844)
Cash Flow from investment activities				
Fixed assets procured	<u>(124,830)</u>	<u>(19,031,556)</u>	<u>(159,415)</u>	<u>(23,567,844)</u>
Net cash used in investment activities	(124,830)	(19,031,556)	(159,415)	(23,567,844)
Cash Flow from financing activities				
Cash refunded	<u>(8,951)</u>	<u>(1,364,607)</u>	<u>(3,547)</u>	<u>(517,328)</u>
Net cash used in financing activities	<u>(8,951)</u>	<u>(1,364,607)</u>	<u>(3,547)</u>	<u>(517,328)</u>
Net Increase in Cash	Nil	Nil	Nil	Nil

2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Even though the activities of the HIV/AIDS New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project had been commenced from 01 January 2016, the plant, property and equipment procured at a cost of Rs.69.99 million up to 31 December 2015 by the previous Project and handed over to the Line Ministry had been shown in the financial statements prepared, as the assets of the Project.
- (b) Even though the Government of Sri Lanka had contributed a sum of Rs.134 million during the year under review, a sum of Rs. 132.64 million had been brought to the Income Statement, as the contribution of the Government of Sri Lanka.

2.2.4 Un reconciled Balances

The Project Monitoring Unit had not taken action to reconcile financial information of the Project with the records maintained by the General Treasury. It was observed that the direct disbursement of US\$ 360,652 equivalent to Rs 54.98 million made during the year under review shown in the financial statements had not been recorded by the General Treasury.

2.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) It was observed that the physical progress ranging from 40 per cent to 100 per cent under 15 Budget Line Activities had been achieved and a sum of Rs 39.4 million had been spent as at 31 December 2017. However, the details on achievement of targets under each activity had not been measured and shown in the progress reports. Further, the corresponding information such as procuring of works and services and details of payments made thereon had not been made available in the respective files.
- (b) The evidence such as corresponding files, physical verification reports and other information relating to the procurement of 35 computers at a cost of Rs.3.84 million for E-MIS system had not been made available for audit.
- (c) According to the information received, the activities under the Integrated Biological and Behavioral Surveillance Survey had been completed during the year under review. However, a copies of the Letter of Acceptance, Survey Report and the approval of the Cabinet of Ministers had not been made available for audit.

2.2.6 Non-compliance with Laws, Rules, and Regulations

The ad-hoc sub imprest aggregating to Rs.8.93 million exceeding the maximum limit of Rs.100,000 had been granted in 26 occasions contrary to the provisions made in the Financial Regulation No.371(5) and Public Finance Circular No. 03/2015 dated 14 July 2015. Further, the sub imprest aggregating to Rs.4.35 million had been released in 42 occasions had been settled with delays of period ranging from 01 week to 03 months.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, funds received during the year, the utilization of funds during the year under review and cumulative utilization up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the grant agreement		Budgetary provision for the year 2017	Funds utilized during the year under review		Funds utilized up to 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	5.32	707.56	222.5	1.23	187.62	2.14	320.5
GOSL	-	-	-	0.19	29.56	0.28	42.56
Total	<u>5.32</u>	<u>707.56</u>	<u>222.5</u>	<u>1.42</u>	<u>217.18</u>	<u>2.42</u>	<u>363.06</u>

According to the above information, only US\$ 2.14 million equivalent to Rs.320.50 million representing 40 per cent of the total allocation had been utilized as at 31 December 2017, out of the total allocation of US\$ 5.32 million equivalent to Rs.707.56 million made there. Further, as per the treasury records, an unutilized balance of Rs.9.87 million reimbursed from Global Fund had remained in the General Treasury as at 31 December 2017.

3.2 Physical Progress

The activities of the Project were scheduled to be implemented through 213 Budget Line Activities under 13 Budget Cost Categories. It was observed that 18 Budget Line Activities had not been implemented as at 31 December 2017 and as a result, the allocation amounting to Rs.56.65 million made thereon had not been utilized. Further, according to the progress reports, the physical progress of 17 other Budget Line Activities had been remained below 40 per cent as at 31 December 2017. However, the physical progress of activities implemented under the Budget Line Activities could not be determined properly in audit due to lack of records on physical progress maintained by the Project. The following further observations are made thereon.

- (a) Eventhough it was reported in the progress records that 10 Budget Line Activities had been completed during the year under review, the actual physical progress had remained at the range from 10 per cent to 70 per cent as at 31 December 2017. In addition, the physical progress of other 99 Budget Line Activities implemented at a cost of Rs.166.7 million had not been evaluated individually by the Project and shown in the progress reports.
- (b) A sum of Rs.5.82 million had been spent for developing of an Electronic Information Systems under 08 Budget Line Activities, out of that the physical progress of 06 Budget Line Activities had remained below than 50 per cent. Further, the action had been taken to design and developing an Electronic Information System for National STD/ AIDS Control Programme under the allocation amounting to Rs. Rs. 17.55 million and reported that 70 per cent of physical progress had been achieved as at 31 December 2017. However, no corresponding information to prove the physical progress achieved thereon had been made available in the respective files.

3.3 Issues on Financial Control

The following observations are made.

- (a) The transactions of the Project entered during the year under review was not subjected to audit of the Internal Audit Section of the Ministry of Health, Nutrition and Indigenous Medicine, as per the Financial Regulation 133.
- (b) Action had not been taken by the Project to conduct an annual board of survey for year under review in terms Financial Regulation 756. Further, no action had been taken to monitor the progress on utilization of the assets transferred to the institutions by the Project.
- (c) It was observed that the prior approval of the Director General of External Resources Department had not been obtained, as per Financial Regulation 610 on grants received under HIV/AIDS Component.

3.4 Human Resources Management

It was observed that cadre of the Project consisted with the posts of 10 Activity Coordinators and out of that 06 posts had remained vacant over 02 years as at 31 December 2017.

3.5 Matters in Contentious Nature

It was observed that a separate audit report had been issued by a firm of Chartered Accountant on the financial statements of HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2017 to the Ministry of Health, Nutrition and Indigenous Medicine and expressed qualified audit opinion thereon. However, the concurrence of the Auditor General had not been requested thereon.