

Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM) Project for Round 09 of AIDS Component - 2013

The audit of the financial statements of the Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM) Project for Round 09 of AIDS Component for the year ended 31 December 2013 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. SRL-S -11-G13-H dated 11 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, the Ministry of Health is responsible for the execution and implementation of the Project including Project scope and activities, budgets, milestones and indicators. The objectives of the Project are scaling up the National Programme Activities for the Prevention, Control and Treatment of HIV/AIDS in Sri Lanka. As per the Grant Agreement, the estimated total cost of the HIV /AIDS control Project for Round 6 and Round 9 are US\$ 1,300,923, and US\$ 4,956,930 respectively and entire amount was agreed to be financed by the GFATM. The Project commenced its activities on 01 January 2008 and the Round 06 Programme was scheduled to be completed by 31 December 2010. The Round 09 Programme is scheduled to be completed by 31 December 2015.

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 Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such tests of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (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 specifications 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 Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report,
- (i) Whether financial covenants laid down in the Grant Agreement had been complied with.

3. 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 5 of this report. I am of opinion that

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Grant Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted Rs. 82,354,428 (US\$ 636,901) and the cumulative expenditure as at 31 December 2013, amounted Rs. 346,562,163. A summary of expenditure of the Project for the year under review, expenditure for the preceding year and cumulative expenditure as at 31 December 2013 is given below.

Category -----	Expenditure for the year ended 31 December -----				Cumulative Expenditure as at 31 December 2013 -----
	2013 -----		2012 -----		
	US\$	Rs.	US\$	Rs.	Rs.
Property, Plant and Equipment	79,127	10,345,861	246,842	31,388,458	62,234,301
HIV/Aids Control Activities	557,774	72,008,567	620,153	79,131,478	284,327,862
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	636,901	82,354,428	866,995	110,519,936	346,562,163
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4.2 Cash Flow

According to the financial statements presented for the years 2012 and 2013, position of the cash flow is given below.

	<u>For the year 2013</u>		<u>For the year 2012</u>	
	<u>US\$</u>	<u>Rs.</u>	<u>US\$</u>	<u>Rs.</u>
Cash Flow from Operating Activities				
Cash received from Foreign Aid-Grant (Vote-13)	526,723	68,000,000	916,928	117,000,000
Foreign Aids related Domestic Funds- (Vote-17)	77,459	10,000,000	78,370	10,000,000
Cash received from Bid Income		-	435	55,500
Cash Paid for Program Expenses	(557,774)	(72,008,567)	(620,153)	(79,131,477)
Difference	2	2	-	-
Advances (Net)	69,925	9,141,188		(6,860,451)
Refundable Deposits		1,500		-
Foreign Exchange Loss/Gain	(586)		1,300	
Net Cash from Operating Activities	<u>115,749</u>	<u>15,134,121</u>	<u>322,928</u>	<u>41,063,571</u>
Cash Flow from Investment Activities				
Fixed Assets	(79,127)	(10,345,861)	(246,842)	(31,388,458)
Net Cash used in Investment Activities	(79,127)	(10,345,861)	(246,842)	(31,388,458)
Cash Flow from Financing Activities				
Cash Refund to the General Treasury	<u>(36,621)</u>	<u>(4,788,260)</u>	<u>(76,086)</u>	<u>(9,675,114)</u>
Net Increase in Cash	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

5. Audit Observations

5.1 Un-reconciled Control Accounts

The following observations are made.

- (a) According to the account, a sum of Rs. 3,376,433 had been spent under 5 programmes carried out for HIV/ Aids prevention purposes. However, according to the records maintained by the Project, the costs thereon had been shown as Rs. 2,740,036
- (b) According to the account, a sum of Rs. 529,786 had been spent for the training programme on "Prison Inmate Peer Educators for Behavior Change". However, according to the records maintained at the Training Unit of the Project it was shown as Rs. 398,625.

5.2 Non-compliance with Laws, Rules, Regulations etc.

The instances of non-compliance observed in audit are given below

Reference to Laws, Rules and Regulations

Non-compliance

(a) Financial Regulations

- (i) Financial Regulation 135 and Health Ministry Circular No SFA/01/2013 dated 21 January 2013

The authority limit for approving payment by Project Director was limited to Rs. 2,000,000. However, the payment aggregating Rs. 42,257,936 had been authorized by the Project Director in 08 instances contrary to the above mentioned authority limit. However covering approval has been given in October 2014 by the Secretary to the Ministry of Health.

- (ii) Financial Regulation 371(2)

Even though advances to be settled immediately after the completion of purpose for which it is granted, it was observed that advances amounting to Rs. 13,555,268 granted in 43 instances had been settled with delays ranging from 02 to 12 months.

- (iii) Financial Regulation 756 and Treasury Circular No. IAI/2002/02 dated 28/11/2002

Fixed Assets valued at Rs. 62,234,301 had not been verified for the year under review.

5.3 Lack of Evidence for Audit

The following instances were observed in audit.

- (a) Copies of the certificates issued by the Cosmetics Devices and Drugs Authority for importation of two consumable items and laboratory equipment at cost of Rs. 8,661,211 had not been furnished for audit.
- (b) Three settlement vouchers and related documents on expenses aggregating Rs. 3,815,724 incurred in connection with HIV/AIDS prevention activities had not been furnished for audit.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain significant statistics relating to the financial of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2013 are shown below.

Source	Amount agreed for financing in the grant agreement		Budgetary Provision for the year 2013	Funds received during the year		Funds utilized during the year 2013	Funds utilized up to 31 December 2013		
	US\$. Mn	Rs. Mn	Rs. Mn	US\$.Mn	Rs. Mn	US\$ Mn	Rs. Mn	US\$ Mn	Rs. Mn
GFATM	4.956	629.46	192.15	0.526	*92.96	0.70	*66.54	1.973	246.45
GOSL					10.00				
	4.956	629.46	192.15	0.526	102.96	0.70	66.54	1.973	246.45

* Direct disbursement amounting to Rs. 24.96 million had been included.

Although a sum of US\$ 0.779 million equivalent to Rs.101 million had been received by the General Treasury during the year under review, a sum of Rs.68 million only had been released to Project and out of that Rs. 66.54 had only been utilized by the Project. Further, according to the detailed Work Programme of the Project, US\$ 3 million expected to be released during the period from 2011 to 2013 by the Global Fund and out of that, US\$ 2.78 million had been released as at 31 December 2013. The Project had utilized US\$ 1.97 million as at 31 December 2013 after elapse of 60 per cent of Project period. As such it is doubtful whether balance US\$ 2.9 million of the Grant could be utilized during the rest of period of 24 months.

6.2 Physical Performance

The following observations are made.

- (a) The allocations aggregating to Rs. 54,040,063 made for 20 activities for the year under review had not been utilized for the intended purposes. Further, a sum of Rs. 18,310,076 been incurred for other 07 activities without a proper approval from the relevant authorities. Out of that, a sum of Rs. 976,059 had been incurred for 02 activities during the year under review without making provisions in the Annual Budget of the Project.
- (b) Although a sum of Rs. 64,099,989 had been allocated in the Annual Budget for the year under review for 16 activities, only a sum of Rs. 9,418,058 had been utilized as at 31 December 2013.
- (c) Out of total proceeds of Grants received, a sum of Rs. 4,788,260 had been refunded to the General Treasury at the end of the year under review without utilizing such proceeds for intended purposes of the Project.
- (d) It was observed that a sum of Rs. 93,485 had been paid additionally, on a training workshop held in Thailand due to delays in payments of registration fees.

7. Systems and controls

Special attention is needed in respect of the following areas of control.

- (a) Procurement of Goods
- (b) Stocks
- (c) Utilization of Funds
- (d) Settlement of Imprests and Advances
- (e) Accounting