

Health System Strengthening Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project - 2014

The audit of financial statements of the Health System Strengthening Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project for the year ended 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 C (8) of the Grant Agreement No. SRL-911-G15-S dated 22 November 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 of the Project, the Ministry of Health and Indigenous Medicine is responsible for the execution and implementation of the Project. The objectives of the Project are maintaining the current low prevalence of HIV/AIDS, Tuberculosis and Malaria in Post Conflict Areas of Northern Province by early restoration of healthcare services. As per the Grant Agreement, the estimated total cost of the Project is US\$ 15,513,020. The Project commenced its activities on 15 July 2011 and was scheduled to be completed by 30 June 2016.

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. 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.

1:4 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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the information provided in the financial statements agree with the information contained with other records maintained by the Project.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Management fee amounting to Rs.15,865,967 paid during the year under review had been shown under infrastructure and other equipment instead of shown under technical assistant expenses.

2.2.2 Non - Compliance with Laws, Rules and Regulations

The following instance of non- compliance were observed in audit.

- (a) Physical verification in respect of fixed assets valued at Rs. 4,471,730 had not been carried out for the year under review as required by Financial Regulation No. 756.
- (b) The approval of the Department of Management Services had not been obtained for the cadre of the Project in terms of the Paragraph 2.1.2 of the Circular No.33 of 05 April 2007 of the Department of Management Services.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Funds utilized during the year 2014		Funds utilized up to 31 December 2014	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	15.51	1766.58	2.25	293.34	5.87	759.86
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	15.51	1766.58	2.25	293.34	5.87	759.86
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The following observations are made.

- (a) It was observed that the General Treasury had released a sum of Rs.317 million during the year under review to implement the activities of the Project and out of that, a sum of Rs.293 million only had been utilized by the Project. Further, out of the total Grant of US\$ 15.51 million agreed to be provided, only US\$ 6.0 million had been released by the Global Fund up to 31 December 2014 and US\$ 5.87 million representing 37.85 per cent of the total Grant only had been utilized as at 31 December 2014 after elapse of 62 per cent of Project period. As such, it is doubtful whether balance of US\$ 9.64 million of the Grant could be utilized during the remaining period of 18 months of the Project.
- (b) Out of total proceeds of Grant received, a sum of Rs.21,756,558 equivalent to US\$ 166,017 had been refunded to the General Treasury at the end of the year under review without utilizing such proceeds for intended purposes.

3.2 Contract Administration

It was observed that 42 small scale laboratories valued at Rs.18,517,810 had been constructed under the Phase I of the Project and handed over to the respective Provincial Authorities as at 31 December 2014. However, those could not be utilized due to the laboratory equipment for such laboratories had not been procured even up to 29 March 2015.

3.3 Financial Controls

- (a) The following observations made in the reviews carried out in audit indicated that the Budget Estimate of the Project had not been used as an effective tool of financial controls of the Project.
- (i) The total allocations aggregating to Rs. 106,188,170 made under 18 activities to be carried out during the year under review had not been utilized for the intended purposes.
 - (ii) A sum of Rs.5,314,732 had been spent under 03 activities which were not included in the Budget Estimate for the year under review. Further, no action had been taken to regularize those expenses subsequently.
- (b) The transactions made on the activities of the Project were not subjected to internal audit as enable to strengthen the financial controls of the Project.