

**Round 09 of AIDS Component of the Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM) Project - 2015**

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The audit of 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 2015 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-S11-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**

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According to the Grant Agreement, then Ministry of Health, presently the Ministry of Health Nutrition and Indigenous Medicine is responsible for the execution and implementation of the Project. The objective of the Project is to maintain the current low prevalence of HIV in Sri Lanka and improve the quality of life of people infected with and affected by HIV. As per the Grant Agreement, the estimated total cost of the HIV /AIDS Control Project for Round 06 and Round 09 are US\$ 1,300,923 and US\$ 4,956,930 respectively and entire amount was agreed to be financed by the GFATM. The Round 06 of AIDS Component of the Project had commenced its activities on 01 January 2008 and scheduled to be completed on 31 December 2010. The Round 09 of AIDS Component of the Project is scheduled to be completed on 31 December 2015.

**1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 judgement, 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 equipments 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 financial covenants laid down in the Grant Agreement had been complied with.

## **1.5 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters described in paragraph 4 of this report.

## **2. Opinion**

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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 04 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the information provided in the financial statements agree with the information contained with other records maintained by the Project and
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

## **3. Financial Statements**

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### **3.1 Financial Performance**

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According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2015 amounted Rs.155,820,264 equivalent to US\$ 1,121,550 and the cumulative expenditure as at 31 December 2015 amounted Rs.635,529,391. A summary of expenditure of the Project for the year under review, expenditure for the preceding year and cumulative expenditure as at 31 December 2015 are given below.

| <b>Description</b>            | <b>Expenditure for the year ended 31 December</b> |                           |                         |                           | <b>Cumulative</b>         |
|-------------------------------|---|---------------------------|-------------------------|---------------------------|---------------------------|
|                               |   |                           |                         |                           | <b>Expenditure as at</b>  |
|                               |   |                           |                         |                           | <b>31 December 2015</b>   |
|                               | <b>2015</b>                                       |                           | <b>2014</b>             |                           |                           |
|                               | <b>US\$</b>                                       | <b>Rs.</b>                | <b>US\$</b>             | <b>Rs.</b>                | <b>Rs.</b>                |
| Property, Plant and Equipment | 42,733  | 6,296,246                 | 11,143                  | 1,460,240                 | 69,990,787                |
| HIV/AIDS control activities   | 1,078,817   | 149,524,018               | 1,008,630               | 131,686,724               | 565,538,604               |
|                               | <b><u>1,121,550</u></b>                           | <b><u>155,820,264</u></b> | <b><u>1,019,773</u></b> | <b><u>133,146,964</u></b> | <b><u>635,529,391</u></b> |

### 3.2 Cash Flow Statement

As per the financial statements presented for the years 2014 and 2015, position of the Cash Flow Statement is given below.

|  | <u>For the year ended 31 December 2015</u> |                      | <u>For the year ended 31 December 2014</u> |                     |
|--|--|----------------------|--|---------------------|
|  | <u>US\$</u>                                | <u>Rs.</u>           | <u>US\$</u>                                | <u>Rs.</u>          |
| <b>Cash Flow from Operating Activities</b>     |  |                      |  |                     |
| Cash received from Foreign Aid-Grant (Vote-13) | 396,825                                    | 55,000,000           | 612,745                                    | 80,000,000          |
| Foreign Aids related Domestic Funds- (Vote-17) | 79,365                                     | 11,000,000           | 38,297                                     | 5,000,000           |
| Direct Disbursement from the Global Fund       | 306,020                                    | 42,414,408           | 70,070                                     | 9,148,367           |
| Cash received from Tender and other Income     | -  | -                    | 161  | 21,000              |
| Program Expenses                               | <u>(1,078,816)</u>                         | <u>(149,524,018)</u> | <u>(697,819)</u>                           | <u>(91,107,262)</u> |
| Surplus / (Deficit) for the year               | (296,606)                                  | (41,109,610)         | 23,454                                     | 3,062,105           |
| <b><u>Adjustments</u></b>                      |  |                      |  |                     |
| Depreciation                                   | 82,328                                     | 11,410,639           | -  | -                   |
| Accruals and payables                          | 272,438                                    | 37,759,852           | -  | -                   |
| Foreign Exchange loss/gain                     | <u>(3,450)</u>                             | =                    | <u>(88)</u>                                | =                   |
| <b>Net Cash from Operating Activities</b>      | <b>54,710</b>                              | <b>8,060,881</b>     | <b>23,366</b>                              | <b>3,062,105</b>    |
| <b>Cash Flow from Investment Activities</b>    |  |                      |  |                     |
| Fixed Assets                                   | <u>(42,733)</u>                            | <u>(6,296,246)</u>   | <u>(11,143)</u>                            | <u>(1,460,240)</u>  |
| <b>Net Cash used in Investment Activities</b>  | <b>(42,733)</b>                            | <b>(6,296,246)</b>   | <b>(11,143)</b>                            | <b>(1,460,240)</b>  |
| <b>Cash Flow from Financing Activities</b>     |  |                      |  |                     |
| Cash Refund to the Treasury                    | <u>(11,977)</u>                            | <u>(1,764,635)</u>   | <u>(12,223)</u>                            | <u>(1,601,865)</u>  |
| <b>Net Cash used in Financing Activities</b>   | <b>(11,977)</b>                            | <b>(1,764,635)</b>   | <b>(12,223)</b>                            | <b>(1,601,865)</b>  |
| <b>Net Increase / (Net Decrease) in Cash</b>   | Nil  | Nil                  | Nil  | Nil                 |

#### 4. Audit Observations

##### 4.1 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance observed in audit are given below.

| <u>Reference to Laws, Rules and Regulations</u>               | <u>Non-compliance</u>   |
|---|---|
| (a) <u>Financial Regulations</u>                              |   |
| (i) Financial Regulation No.453                               | A Register for Personal Emolument had not been maintained.  |
| (ii) Financial Regulation No. 756                             | Physical verification had not been carried out for the year ended 31 December 2015 in respect of fixed assets valued at Rs.69.99 million.   |
| (b) Establishment Code chapter VIII Clause 11.2               | No- Pay leave of the officers had not considered at the time of calculating of cost of living allowances.   |
| (c) No:3 (vi) of Terms of Reference of the Global Fund        | Photocopies of the supporting documents instead of originals had been furnished along with the vouchers on payments of Rs.8.65 million made in 06 instances.  |
| (d) Procurement Guideline 2006- Paragraph 5.4.11              | Details of payments of Value Added Tax should be informed to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before 15 day of the following month. The details of Value Added Tax amounting to Rs.5.95 million paid to the contractors in 98 instances had not been informed accordingly. |
| (e) Treasury Circular No .IAI/2002/02 dated 28 November 2002. | A Fixed Assets Register had not been maintained for computers and softwares procured by the Project.  |

- (f) Management Services Circular No.33 dated 05 April 2007 Paragraph 4.3.2
- A sum of Rs.1.19 million had been remitted to the Employees Provident Fund and Employees Trust Fund as at 31 January 2015 by the Project on behalf of 09 officers who already contributed to the Widows/ Widowers and Orphans Pension Scheme.

## 5. Financial and Physical Performance

### 5.1 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 up to 31 December 2015 are shown below.

| Source | Amount agreed for financing according to the Grant Agreement |               | Allocation made for the year 2015 | Funds received during the year |              | Funds Utilized |                      |              |                        |
|--------|--|---------------|-----------------------------------|--------------------------------|--------------|----------------|----------------------|--------------|------------------------|
|        | US\$ million   | Rs million    |                                   | US\$ million                   | US\$ million | Rs million     | during the year 2015 |              | up to 31 December 2015 |
|        |  |               |                                   |                                |              | US\$ million   | Rs million           | US\$ million | Rs million             |
| GFATM  | 4.96   | 629.46        | 1.04                              | 0.70                           | 97.41        | 0.70           | 97.19                | 3.30         | 431.34                 |
|        | <u>4.96</u>  | <u>629.46</u> | <u>1.04</u>                       | <u>0.70</u>                    | <u>97.41</u> | <u>0.70</u>    | <u>97.19</u>         | <u>3.30</u>  | <u>431.34</u>          |

The following observations are made.

- (a) Out of the total allocation of US\$ 4.96 million made for the period from 01 January 2011 to 31 December 2015 by the Project, only a sum of US\$ 3.3 million representing 67 per cent had been utilized as at 31 December 2015. Further, US\$ 11,977 equivalent to a sum of Rs.1.76 million had been refunded to the General Treasury at the end of the year under review. However, payables amounting to Rs.37.76 million had remained outstanding as at 31 December 2015.
- (b) It was observed that the allocations of US\$ 659,955 equivalent to Rs.83.81 million made for the year under review to carry out 27 activities had not been utilized entirely during the year under review for the intended purposes

including the allocations of US\$ 225,621 made to procure drugs. Out of the allocation of US\$ 232,463 equivalent to Rs.29.52 million made to implement 18 activities of the Budget for the year under review, only US\$ 68,226 equivalent to Rs.9.45 million representing 29 per cent of total allocation had been utilized as at 31 December 2015. According to the explanation made by the Project Director, the performance of the activities of the Project had shown a slow progress due to delays in reimbursements of the funds from the Global Fund. In addition, US\$ 215,205 equivalent to Rs.29.88 million had been spent to implement 06 activities which were not included in the Budget for the year under review.

## **5.2 Physical Progress**

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The following observations are made.

- (a) The counseling and treatment activities for female sex workers, men who have sex with men, drug users and beach boys etc, are carried out by the Project through a Non- Governmental Organization and a Memorandum of Understanding had been signed in 2013 by then Ministry of Health, as the Principal Recipient-01 with the Non-Governmental Organization as Principal Recipient-02 for better coordination and monitoring purpose of the above mentioned activities. However, a copy of the Memorandum of Understanding had not been submitted for audit and as a result, the performance of the Non- Governmental Organization could not be evaluated.
- (b) The Project had taken action to develop peer groups of inmates in the prisons for counseling prisoners and a sum of Rs.566,310 had been spent during the year under review to train inmates in the prisons to work as Peer Educators. According to the information received, only 765 Peer Educators had been trained and deployed as at 31 December 2015 eventhough 1,350 Peer Educators are required to be deployed for the counseling of total population of inmates in the prisons.
- (c) Eventhough an external evaluation report had been submitted by the Consultant in May 2013 on implementation of HIV/AIDS Prevention Programmes for the community of prisons, a proper mechanism had not been established even as at 31 December 2015 to implement the recommendations made thereon.

## **6. Transactions of Contentious Nature**

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The following observations are made.

- (a) The Project had taken action to procure 07 refrigerators procured at a cost of Rs.2.48 million and distribute directly to the laboratories island wide, without

confirming the assets supplied were complied with the specifications. The original invoices issued by the supplier had not been presented for audit.

- (b) The Project had procured 1,000,000 mail condoms at a cost of Rs. 6.15 million from local market as emergency procurements. However, the stock records had not been maintained properly and as a result, the stock in hand could not be verified in audit.

## **7. Issues on Financial Controls**

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The following control weaknesses were observed in audit.

- (a) The advances amounting to Rs.88,146 and Rs.551,250 made on 10 April 2010 and 19 August 2010 respectively to an outside party had not been settled even as at 31 December 2015. Further, the contract thereon to supply of goods and services had not been completed even up to March 2016.
- (b) It was observed that the controls over the drugs and other stock management were not satisfactorily implemented by the Project. The following matters were revealed in audit.
  - (i) It was observed that 4,620 tablets which recommended for HIV/AIDS infected persons were expired in October and December 2015 and remained in the drugs stores without taking actions to destroy even up to February 2016.
  - (ii) The acknowledgements had not been received from 17 clinics of Sexually Transmitted Diseases for 198,160 condoms and 3,400 lubricants issued in 28 and 02 occasions respectively during the year 2015. In addition, duly authorized issue orders had not been prepared and presented for 9,656 condoms issued for various programmes conducted by National STD/AIDS Control Programme and 1,668,304 condoms and 184,800 lubricants issued to a Non- Government Organization which engaged in family planning activities.
- (c) According to the minutes of the Project Steering Committee meeting, it was revealed that a time bound action plan as suggested by the Project Steering Committee had not been prepared and implemented by the Project.
- (d) The transactions on the activities of the Project had not been subjected audit of Internal Audit Unit of the Line Ministry.