

Tuberculosis Component of the Global Fund to Fight Aids, Tuberculosis and Malaria Project New Funding Model - 2016

The audit of financial statements of the Tuberculosis Component of the Global Fund to Fight Aids, Tuberculosis and Malaria Project under New Funding Model for the first accounting year ended 31 December 2016 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 (1) of the Grant Agreement No.857 - LKA - T- MOH dated 29 February 2016 entered into between the Democratic Socialist Republic of Sri Lanka 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, Nutrition and Indigenous Medicine is responsible for execution and implementation of the Project. The objectives of the Project are to strengthen the Tuberculosis Control Programme in Sri Lanka by enhancement of the efficiency of the Directly Observed Treatment Short-course (DOTS) Programme through increasing outreach activities in under - served areas and promoting with the Non-Governmental Organizations and the private sector. The estimated total cost of the Project amounted to US\$ 7.91 million equivalent to Rs.1,033.99 million for strengthening Tuberculosis 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 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. 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 Donor 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, and
- (h) 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 4 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 04 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 agreed with the information contained in other records maintained by the Project.

3. **Financial Results**

3.1 **Financial Performance**

As per the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2016 amounted to US\$ 798,805 equivalent to Rs.116.40 million. The details are given below.

Item	Expenditure for the year ended 31 December 2016	
	US\$	Rs.
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Property, Plant & Equipment	16,325	2,475,850
Tuberculosis Control Activities	<u>782,480</u>	<u>113,929,047</u>
	<u>798,805</u>	<u>116,404,897</u>

3.2 **Cash Flow Statement**

As per the financial statements furnished for the year ended 31 December 2016, position of the Cash Flow Statement is given below.

	<u>For the year ended 31 December 2016</u>	
<u>Cash Flow from Operating Activities</u>	<u>US\$</u>	<u>Rs.</u>
Cash Received from Foreign Aid-Grant	720,805	104,822,167
Cash Received from Domestic Fund	13,587	1,602,826
Tender Income	234	34,000
Adjustments for Foreign exchange loss	(1,399)	-
Cash paid for Programme Expenses	(782,480)	(113,929,047)
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Surplus/(Deficit) for the year	(49,253)	(7,470,054)
Foreign exchange loss/gain	-	-
Increase /(Decrease) in Payables	(35,690)	(5,412,688)
Increase /(Decrease) in receivables	(1,281)	(194,254)
Depreciation	63,628	9,649,938
Gratuity	38,921	5,902,908
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Net Cash from Operating Activities	16,325	2,475,850

Cash Flow from Investing Activities

Fixed Assets	(16,325)	(2,475,850)
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Net Cash used in Investment Activities	(16,325)	(2,475,850)
Net Increase /Net Decrease in Cash	Nil	Nil
Balance as at 01 January 2016	-	-
Balance as at 31 December 2016	Nil	Nil

4. Comments on Financial Statements**4.1 Accounting Deficiency**

Equipment valued at Rs.61.35 million and drugs valued at Rs.65.40 million received directly from the Global Fund had not been brought to account.

5. Financial and Physical Performance**5.1 Utilization of Funds**

Certain significant statistics relating to the financing of funds, funds received during the year and utilization of funds up to 31 December 2016 are shown below.

Source	Amount agreed for financing according to the Grant Agreement		Funds received during the year		Funds utilized up to 31 December 2016	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	7.91	1,033.99	1.61	234.75	1.59	231.62
GOSL	-	-	0.07	11.00	0.07	11.00
Total	<u>7.91</u>	<u>1,033.99</u>	<u>1.68</u>	<u>245.75</u>	<u>1.66</u>	<u>242.62</u>

5.2 Physical Progress

The following observations are made.

- (a) An allocation amounting to Rs.18.85 million had been made in the Action Plan for the year under review to conduct 201 training programmes to train Public Health Inspectors, Nurses, Doctors and other relevant parties to identify the patients who are not registered, directing them for treatments, conducting clinics and awareness programmes thereon. However, only 64 training programmes had been conducted and only a sum of Rs.6.57 million had been spent thereon. Out of 17 awareness programmes planned to conduct during the year under review for 510 Regional Public Health Inspectors, 07 programmes had not been conducted. It was observed that 300 Public Health Inspectors had not been provided opportunities to participate for the awareness trainings programmes.

- (b) According to the information furnished to audit, 27,934 tuberculosis patients registered during the last 03 years and out of that death of 935 patients were recorded as at 31 December 2016. However, it was revealed in audit that the information relating to the tuberculosis patients and the deaths etc, was not readily available, as several reasons such as lack of mechanism to maintain records of the patients by the Line Ministry and the reluctance of the patients to disclose their sickness.
- (c) According to the information received from the World Health Organization, detection of the tuberculosis in Sri Lanka is remained below than 4000 patients per year and proposed to provide more trainings for the staff on detection tuberculosis cases and improve the facilities for treatments in the hospitals. However, no action had been taken during the year under review to implement the respective proposals.

5.3 Issues relating to the Financial Controls

The following observations are made.

- (a) The weaknesses on internal controls systems adopted on sub - imprests made to the officers of the Project were observed in audit. The instances observed are described as follows.
 - (i) It was observed that the unspent balances aggregating Rs.5.10 million on ad-hoc sub imprests granted in 175 instances had been settled with delays ranging from 04 to 120 days, eventhough it is required to be settled immediately after the completion of the intended purpose.
 - (ii) The ad-hoc sub imprest aggregating Rs.2.09 million issued in 35 instances had not been utilized for intended purposes and settled with delays ranging from 04 to 210 days. Further, sub imprest aggregating to Rs.966,758 had been granted in other 33 occasions, without being prepared estimations in realistic manner.
- (b) Physical verification had not been carried out for the year ended 31 December 2016 on fixed assets of the Project valued at US\$ 44,967 equivalent to Rs.6.82 million.
- (c) It was observed that surcharges amounting to Rs.2.02 million had been paid during the year under review, due to delays in making contributions to the Employee Provident Fund and Employees' Trust Fund.

5.4 Human Resources Management

Eventhough the approved cadre of the Project consisted with 80 TB Assistants, only 60 officers remained in the service during the year under review. The activities to be implemented by the District Cultural Centres, Laboratories and Microscopies Centres had not been satisfactorily performed, due to shortages of the 20 TB Assistants. It was observed that vacancies remained unfilled as at 31 December 2016 in the Posts of 10 Estate Coordinator and 09 Data Entry Operators and highly affected for the smooth operations of the Project.