

## **HIV/AIDS New Funding Model Component of the Global Fund to Fight Aids Tuberculosis and Malaria (GFATM) Project - 2016**

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The audit of the financial statements of the Global Fund to Fight Aids Tuberculosis and Malaria Project for HIV/AIDS Component for the 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 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 (GFATM).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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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**

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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 Scope of Audit and Basis of Opinion**

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

**2. Financial Statements**  
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**2.1 Opinion**  
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**Qualified 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 2.2 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,
- (c) the information 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.

## 2.2 Comments on Financial Statements

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### 2.2.1 Financial Performance

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According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs.176.09 million and details are given below.

Category	Expenditure incurred during the year 2016	
	US\$	Rs.
Property, Plant and Equipment	59,415	23,567,844
HIV/AIDS control activities	1,045,856	152,517,188
	<u>1,105,271</u>	<u>176,085,032</u>

## 2.2.2 Cash Flow Statement

As per the Financial Statements presented the Cash Flow Statement for the year under review is given below.

	<u>US\$</u>	<u>Rs.</u>
<b>Cash Flow from Operating Activities</b>		
Cash received from Foreign Aid-Grant	627,442	91,500,000
Proceeds from domestic sources	89,145	13,000,000
Direct disbursement from the Global Fund	407,557	59,434,020
Cash received from other sources	288	42,000
Program expenses	<u>(1,045,856)</u>	<u>(152,517,188)</u>
<b>Surplus/(Deficit) for the year</b>	<b>75,029</b>	<b>10,941,504</b>
Depreciation	77,656	11,324,518
Increase/ payables	7,526	1,268,821
Decrease in Refundable deposits	224	33,000
Foreign exchange loss	<u>(1,020)</u>	<u>-</u>
<b>Net Cash from Operating Activities</b>	<b>(159,415)</b>	<b>(23,567,844)</b>
Fixed assets	<u>(159,415)</u>	<u>(23,567,844)</u>
<b>Net Cash used in Investment Activities</b>	<b>(159,415)</b>	<b>(23,567,844)</b>
Cash Refunded	<u>(3,547)</u>	<u>(517,328)</u>
<b>Net Cash used in Financing Activities</b>	<b><u>(3,547)</u></b>	<b><u>(517,328)</u></b>
<b>Net Increase in Cash</b>	Nil	Nil

### 2.2.3 Accounting Deficiency

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.

## 3. **Financial and Physical Performance**

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### 3.1 **Utilization of Funds**

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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 2016 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Budgetary Provision for the year 2016	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	5.32	707.56	2.50	1.03	150.42	0.91	132.9

According to the above information, only US\$ 0.91 million equivalent to Rs.132.9 million representing 17 per cent of the total allocation had been utilized as at 31 December 2016 out of the total allocation of US\$ 5.32 million equivalent to Rs.707.56 million made for the Component. Further, the allocations aggregating to Rs.143.29 million made for 93 activities for the period under review had not been utilized for the intended purposes as indicated in the detailed budget. In addition, out of the allocation aggregating Rs.72.77 million made in the budget for other 34 activities, only a sum of Rs.11.29 million had been utilized as at 31 December 2016. It was observed that the possibility to utilize the entire allocation within the period of the Project would be very remote unless expedite action taken thereon.

### 3.2 **Contract Administration**

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It was observed that 10 Automatic Micro Plate Elisa Reader Washer machine had been procured at a cost of Rs.14.85 million without entering into a contract agreement and obtaining a performance security. It was observed that 07 Machines distributed to the sexually transmitted diseases centres had remained idle up to 03 July 2017.

### 3.3 **Issues on Financial Controls**

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The following control weaknesses were observed in audit.

- (a) The sub imprests aggregating to Rs.8.31 million had been granted in 24 occasions to the officers, exceeding the limit of Rs.100,000 for sub imprests. The unspent sub

imprests balances aggregating Rs.93,301 granted in other 10 instances had been settled with delays ranging from 24 to 97 days even though it is required to be settled immediately after the completion of the intended purpose. Further, ad-hoc sub imprest issued in 03 instances aggregating Rs.35,676 had not been incurred for the intended purposes and it had been settled in a delay of 11 to 16 days.

- (b) The transactions entered by the Project 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.
- (c) 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 progress on utilization of the assets transferred to the institutions by the Project.
- (d) Although a sum of Rs.4.89 million had been reimbursed during the year under review for medical items procured by the Project from the Medical Supplies Division of the Ministry of Health, the evidence for the approval, certification and receiving goods had not been received for audit.

#### **3.4 Matters in Contentious Nature**

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It was reported that the 1,152,000 units of Male Condoms had been misplaced, out of 6,120,000 units of Male Condoms valued at US\$ 145,026 received on 21 September 2016 from a foreign agency and no action had been taken to investigate the matter.