

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

The audit of the financial statements of the Health System Strengthening Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project 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 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, 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 maintaining the current low prevalence of HIV/AIDS, Tuberculosis and Malaria in Post Conflict Areas of Northern Province by early restoration of Healthcare Services. The estimated total cost of the Project is US\$ 15,513,020. The Project commenced its activities on 15 July 2011 and expected 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 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 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 the 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 to Rs. 226,127,425 (US\$ 1,751,401) and the cumulative expenditure as at 31 December 2013 amounted to Rs.474,254,086.The

expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are summarized below.

Category	Expenditure for the year ended 31 December				Cumulative expenditure as at 31 December 2013
	2013		2012		
	US\$	Rs.	US\$	Rs.	
Property , Plant and Equipment	13,128	1,716,492	12,813	1,675,316	3,391,808
Activities for Strengthening the Health System	1,738,273	224,410,933	1,853,510	236,507,882	470,862,278
	<u>1,751,401</u>	<u>226,127,425</u>	<u>1,866,323</u>	<u>238,183,198</u>	<u>474,254,086</u>

4.2 Cash Flow

According to the financial statements of the Project, the details of the cash flow is given below.

	For the year ended 31 December			
	<u>2013</u>		<u>2012</u>	
Cash Flow from Operating Activities	<u>US\$</u>	<u>Rs.</u>	<u>US\$</u>	<u>Rs.</u>
Cash received from Foreign Aid-Grant (Vote-13)	1,398,916	180,600,000	1,990,596	254,000,000
Cash received from Domestic Funds- (Vote-17)	147,173	19,000,000	27,429	3,500,000
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	1,546,089	199,600,000	2,018,025	257,500,000
Cash received from Bid income	4,516	583,000	-	-
Cash paid for Programme Expenses	(1,738,273)	(224,410,933)	(1,853,510)	(236,507,882)
Advances (Net)	305,443	39,936,639	(184,047)	(23,403,356)
Increase in Payables (Refundable Deposit-Bid)		6,224	-	-
Foreign Exchange Loss	2,368	-	569	-
Increase in Payables (Retention)	(69,243)	(9,059,737)	93,154	11,845,476
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Net Cash from Operating Activities	50,900	6,655,193	74,191	9,434,238
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	50,900	6,655,193	74,191	9,434,238
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Fixed Assets	(13,128)	(1,716,492)	(13,176)	(1,675,316)
Cash Flow from Financing Activities				
Cash refund to the Ministry	(37,772)	(4,938,701)	(61,017)	(7,758,923)
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Net Increase in Cash	-	-	-	-
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5. Audit Observations

5.1 Accounting Deficiencies

The Ledger Account for expenses for monitoring and evaluation purposes had shown a negative balance of Rs. 291,539, due to erroneous accounting entries made.

5.2 Non compliance with Laws, Rules and Regulations

Following instance of non- compliance were observed in audit.

References to the Laws, Rules and Regulations

Non compliance

(a) Financial Regulations No 135 and Health Ministry Circular No SFA/01/2013 dated 21, January 2013 paragraph 28 and 42

The authority limit for approving payment by Project Director was limited to Rs.2,000,000. However, the payment aggregating Rs. 178,230,654 had been authorized by the Director in 29 instances exceeding the prescribed limits. However, covering approval has been given in October 2014 by the Secretary to the Ministry of Health.

(b) Financial Regulations No 756

Physical verification in respect of fixed assets valued at Rs. 3,391,808 had not been carried out for the year under review.

6. Financial and Physical Performance

6.1 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 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	15.51	1766.58	793.88	1.398	180.60	1.39	179.99	3.402	435.05
GOSL					19.00		19.00		
	15.51	1766.58	793.88	1.398	199.6	1.39	198.99	3.402	435.05

The following observations are made.

- (a) Although a sum of US\$ 2.417 million equivalent to Rs.318 million had been received by the General Treasury only Rs.180.6 million had been released to the Project and out of that a sum of Rs.180 million only had been utilized by the Project. According to the Budget of the Project, US\$ 5.67 million was expected to be incurred from July 2011 to December 2013 by the Global Fund and US\$ 5.36 million had been released to the Project. However, US\$ 3.40 million representing 22 per cent of the total Grant only had been utilized as at 31 December 2013 by the Project after elapse of 45 per cent of Project period. As such, it is doubtful whether balance of US\$ 12.11 million of the Grant could be utilized during the remaining period of 30 months of the Project.
- (b) Budgetary provisions for 12 activities valued at Rs. 103,362,884 made during the year under review had not been utilized entirely
- (c) The budgetary provisions made for other 03 activities had been exceeded by Rs. 30,378,945 without an approval from the relevant parties.
- (d) Although a sum of Rs. 666,626,410 had been allocated in the Budget of the Project for 19 activities, only Rs. 140,601,704 or 21 percent of total allocation had been utilized as at 31 December 2013.

6.2 Physical Performance

The following observations are made.

- (a) The Project had not adopted sound practices on financial controls over the advances granted. As a practice, the estimates on expenses to be incurred had not been prepared prior to granting advances for various purposes. Therefore, advances aggregating Rs. 5,640,777 had been granted in 12 occasions without estimates. As a result, the advances aggregating to Rs. 125,000 had been refunded entirely after a month without using such advances for intended purposes.
- (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.
- (c) It was observed that a sum of Rs. 4,938,701 out of proceed of Grants received had been refunded to the General Treasury at the end of the year under review without utilizing such proceeds for intended purposes.

7. Systems and Controls

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

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