

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

### **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 execution and implementation of the Project. The objectives of the Project are to maintain 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 for the Health System Strengthening Component and the entire amount was agreed to be financed by the GFATM. The Project commenced its activities on 01 July 2011 and scheduled to be completed by 30 June 2016.

### **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 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 04 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 to Rs.359,813,747 equivalent to US\$ 2,646,858 and the cumulative expenditure as at 31 December 2015 amounted to Rs.1,153,203,374. The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2015 are summarized below.

Description	Expenditure for the year ended 31 December				Cumulative expenditure as at 31 December 2015
	2015		2014		
	US\$	Rs.	US\$	Rs.	Rs.
Property, Plant and Equipment	-	-	8,241	1,079,921	4,471,729
Activities for Strengthening the Health System	2,646,858	359,813,747	2,436,089	318,055,620	1,148,731,645
	<u>2,646,858</u>	<u>359,813,747</u>	<u>2,444,330</u>	<u>319,135,541</u>	<u>1,153,203,374</u>

**3.2 Cash Flow Statements**

As per the financial statements for the year ended 31 December 2015 and previous year, 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>	
	US\$	Rs.	US\$	Rs.
<b><u>Cash Flow from Operating Activities</u></b>				
Cash received from Foreign Aid-Grant	2,243,637	305,000,000	2,428,002	317,000,000
Cash received from Domestic Funds	279,535	38,000,000	398,284	52,000,000
Cash received from Bid income	1,501	204,000	1,786	233,124
Cash paid for Programme Expenses	<u>(2,646,858)</u>	<u>(359,813,747)</u>	<u>(2,426,453)</u>	<u>(316,797,577)</u>
<b>Surplus / (Deficit) for the period</b>	<b>(122,185)</b>	<b>(16,609,747)</b>	<b>401,619</b>	<b>52,435,547</b>
Add/ Less <u>Adjustments</u>				
Advances (Net)	330,631	47,630,744	(363,455)	(47,630,744)
Foreign Exchange Loss /Gain	6,579	-	(1502)	-
Depreciations	5,475	744,330		
Increase in Payables	89,359	12,872,913	137,533	18,031,674
Difference			63	
<b>Net Cash from Operating Activities</b>	<b>309,859</b>	<b>44,638,240</b>	<b>174,258</b>	<b>22,836,477</b>
<b><u>Cash Flow from Investment Activities</u></b>				
Fixed Assets	-	-	<u>(8,241)</u>	<u>(1,716,492)</u>
<b>Net Cash used in Investment Activities</b>	<b>-</b>	<b>-</b>	<b>(8,241)</b>	<b>(1,716,492)</b>
<b><u>Cash Flow from Financing Activities</u></b>				
Cash refund to the Ministry	<u>(309,859)</u>	<u>(44,638,240)</u>	<u>(166,017)</u>	<u>(21,756,558)</u>
<b>Net Cash used in Financing Activities</b>	<b>(309,859)</b>	<b>(44,638,240)</b>	<b>(166,017)</b>	<b>(21,756,558)</b>
Net Increase / (Net Decrease) in cash	Nil	Nil	Nil	Nil

#### 4. Audit Observations

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##### 4.1 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) The employer contributions for the Employees Provident Fund and Employees Trust Fund amounting to Rs.20.88 million payable as at 31 December 2015 for 631 employees of the Project had been disclosed in the financial statements as a contingent liability instead of taking into account.
- (b) The mobilization advances account aggregating to Rs.26.05 million as at 31 December 2015 relating to 13 contracts had been debited to the expenditure account before completing relevant parts of the contract.

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

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

<b>References to the Laws, Rules and Regulations</b>	<b>Non compliance</b>
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(a) <u>Financial Regulations</u> (i) Nos.137, 138, 139 and 140	A sum of Rs.1.57 million had been paid to a contractor without certifying and approving by the authorized parties, contrary to the requirement stipulated in the Financial Regulations.
(ii) No. 756	Physical verification on fixed assets valued at Rs.4.47 million had not been carried out for the year ended 31 December 2015.
(b) Section 3 (vi) of Terms of Reference of the Global Fund	Photocopies of the supporting documents instead of originals had been furnished to audit along with a voucher for the payments aggregating Rs.1.07 million.
(c) Procurement Guideline 2006- Para 5.4.11	Details on payments of Value Added Tax amounting to Rs.31.45 million paid to the contractors in 273 instances had not been informed to the Commissioner General of Inland Revenue with a copy to the Auditor General.

- (d) Treasury Circular No. IAI/2002/02 dated 28 November 2002  
A separate Register of Fixed Assets had not been maintained for computers and related software purchased by the Project.
- (e) Management Services Circular No.33 dated 05 April 2007 Paragraph 4.3.2  
A sum of Rs.164,224 had been remitted to the Employees Provident Fund and Employees Trust Fund as at 31 January 2015 by the Project on behalf of an officer already contributed to the Widows/ Widowers and Orphans Pension Scheme.

## 5. Financial and Physical Performance

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### 5.1 Utilization of Funds

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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	US\$ million	Rs. million	US\$ million
GFATM	15.51	1,766.58	2.19	2.24	305.00	1.93	267.11	7.58	995.50
	<b><u>15.51</u></b>	<b><u>1,766.58</u></b>	<b><u>2.19</u></b>	<b><u>2.24</u></b>	<b><u>305.00</u></b>	<b><u>1.93</u></b>	<b><u>267.11</u></b>	<b><u>7.58</u></b>	<b><u>995.50</u></b>

The following observations are made.

- (a) A sum of US\$ 2.24 million equivalent to Rs.305 million had been released to the Project by the General Treasury during the year under review and out of that only a sum of US\$ 1.93 million equivalent to Rs.267.11 million representing 87 per cent had been utilized by the Project. In addition, out of the total allocation of US\$ 15.51 million made for the period from 01 July 2011 to 30 June 2016, only a sum of US\$ 7.58 million representing 49 per cent had been utilized as at 31 December 2015. Further, a sum of US\$ 309,859 equivalent to Rs.44.64 million had been refunded to the Ministry of Finance

at the end of the year under review. However, payables amounting to Rs.34.39 million had remained outstanding as at 31 December 2015.

- (b) The total allocation aggregating to US\$ 3,980,419 made for 24 activities for the period from July 2013 to December 2015 had not been utilized for the intended purposes.

## **5.2 Physical Progress**

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### **5.2.1 Strengthening the Health System**

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The following observations are made.

- (a) The Project had taken action to construct 42 small scale laboratories at a cost of Rs.18.52 million for Provisional Health Authorities in 2013 and 2014. However, such laboratories were not in operation even up to 31 December 2015 as necessary laboratory equipment had not been supplied and laboratory technicians were not recruited adequately.
- (b) Eventhough the Project had taken action to construct buildings for Out-door Patient Units in rural areas, detailed assessments on average attendance of out-door patients and existing infrastructure facilities to determine the capacity of the buildings had not been carried out before commencement of the construction work, according to the Global Fund Guideline. According to the records, daily attendance of out-door patients of newly constructed Out-door Patient Units was remained below than 100 patients eventhough such units comprised with facilities for more than 200 outpatients per day.
- (c) The Project had taken action to provide trainings for Public Health Inspectors in the Northern Province and Rs 7.27 million had been allocated thereon. Eventhough 20 Public Health Inspectors were expected to be trained during the year under review only 10 Public Health Inspectors had been trained and Rs 1.29 million had only been utilized. According to the explanation made by the Project Director, limited numbers of Qualified Public Health Inspectors were in service in the Northern Province and as a result, the expected targets could not be achieved. Further, the proposed training programmes to improve the skills in Tamil speaking for Public Health Midwives for community based Health Services and Public Health Inspectors for disease surveillance purposes had not been conducted. According to the explanation made by the Project Director, several activities could not be implemented as planned and scheduled to be implemented under the Phase -2 of the Project.
- (d) Eventhough the Monitoring and Evaluation Plan and Strategic Plan for the operations of the Project in the conflict affected areas had been prepared and performed, an independent Consultant had not been deployed to ensure the

achievement of targets as stipulated in the respective plans. According to the explanation made by the Project Director, the Health Facility Assessment Plan which scheduled to be conducted in 2016 will be an independent evaluation of the activities of the Project. Further, the Procurement and Supply Management Plan prepared for the period from 01 July 2013 to 30 June 2016 was not consisted with a procurement schedule to describe the expected time frame for procurements for the purpose of monitoring of the processes of procurements effectively.

### **5.2.2 Contract Administration**

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The following observations are made.

- (a) The Project had deployed 02 public sector organizations as supervision consultants for the construction carried out in the Northern Province. It was observed at the field visits that a quality control register had not been maintained by the Consultants, according to the Clause 36 of the consultancy agreements, As a result, no documentary evidence made available to ensure quality controls on works carried out and the materials used. Further, it was observed that the technical staff had not been deployed by the Consultants at the work sites, as agreed.
- (b) Although the refurbishment works of office quarters at Musali had been completed as at 30 June 2015, the taking over certificate and the certificate of completion had not been issued even as at 31 December 2015.
- (c) The contract for refurbishment of Medical Health Office building at Sandilipai in Jaffna expected to be completed before 09 August 2014 had not been completed even as at 31 December 2015, due to delays in commencement of the activities of the contract.
- (d) According to the Letter No: GFATM/HSS/R09/Contract/2015/01 dated 19 October 2015 of the Project Director, time extensions for 180 days had been granted for each of 12 contracts for refurbishment works, due to delay in receiving funds and adverse weather condition. However, no evidence such as weather reports issued from Meteorological Department were made available to prove the adverse weather condition prevailed during the contract period. It was further observed that the extensions from 08 to 10 days had only been granted for other constructions made in the adjoining locations in Jaffna, during the period concerned.