

TB Transitional Funding Mechanism Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project - 2015

The audit of financial statements of the TB Transitional Funding Mechanism (TFM) 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 (1) of the Grant Agreement No. SRL-607-G07-T dated 19 June 2013 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

According to the Grant Agreement, then Ministry of Health, presently 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 is US\$ 9,589,491 for strengthening Tuberculosis Control for Round 06 and Transitional Funding Mechanism and the entire amount was agreed to be financed by the GFATM. The Project commenced its activities on 01 January 2008 and expected to be completed by 31 December 2015.

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 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

My opinion is qualified based on the matters described in paragraph 04 of this report.

2. 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 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 Statement

3.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs.76,453,217 equivalent to US\$ 562,082 and the cumulative expenditure as at 31 December 2015 amounted to Rs.934,037,083. 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.	
Property , Plant and Equipment	5,545	798,791	52,256	6,848,109	148,903,993
Tuberculosis Control Activities	556,537	75,654,426	843,545	110,133,241	785,133,090
	<u>562,082</u>	<u>76,453,217</u>	<u>895,801</u>	<u>116,981,350</u>	<u>934,037,083</u>

3.2 Cash Flow Statement

As per the financial statements for the year ended 31 December 2015 and previous year, position of the Cash Flow Statement is given below.

Cash Flow from Operating Activities	<u>For the year ended 31 December 2015</u>		<u>For the year ended 31 December 2014</u>	
	US\$	Rs.	US\$	Rs.
Cash Received from Foreign Aid-Grant	389,884	53,000,000	689,338	90,000,000
Cash Received from Domestic Fund	42,492	5,776,203	22,978	3,000,000
Tender Income	-	-	230	30,000
Adjustments for: Foreign exchange loss	7,002	-	(698)	-
Cash paid for Programme Expenses	(556,537)	(75,654,426)	(525,776)	(68,645,183)
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<u>Adjustments</u>				
Surplus/Deficit for the year	(117,159)	(16,878,223)	186,072	24,384,817
Foreign exchange loss/gain	3,406	490,707		
Increase in Payables	7,905	1,138,829	92	11,997
Depreciation	121,389	17,487,476		
Gratuity	8,459	1,218,656		
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Net Cash from Operating Activities	24,000	3,457,445	186,164	24,396,814
Cash Flow from Investing Activities				
Fixed Assets	(5,545)	(798,791)	(52,256)	(6,848,109)
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Net Cash Used in Investment Activities	(5,545)	(798,791)	(52,256)	(6,848,109)
Cash Flow from Financing Activities				
Cash Refund to the Ministry (Treasury)	(18,455)	(2,658,654)	(133,908)	(17,548,705)
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Net Cash Flow from Financing Activities	(18,455)	(2,658,654)	(133,908)	(17,548,705)
Net Increase /Net Decrease in Cash	Nil	Nil	Nil	Nil

4. Audit Observations

4.1 Accounting Deficiencies

The employer contributions for Employee's Provident Fund and Employee's Trust Fund amounting to Rs.8.01 million payable as at 31 December 2015 for 51 employees of the Project had been disclosed in the financial statements as a contingent liability instead of taking into account.

4.2 Non-compliance with Laws, Rules, Regulations etc.

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. 371(2) (b) and amended F. R. No. 371(5) of Public Finance Circular No. 03/2015 dated 14 July 2015.	Although advances obtained should be settled immediately after the completion of the purpose for which it is granted, advances aggregating to Rs.874,125 released in 23 occasions had been settled with delays of period ranging from 01 to 10 months.
(ii) Financial Regulation 756	Physical verification had not been carried out for the year ended 31 December 2015 in respect of fixed assets valued at US\$ 97,137 equivalent to Rs.13,993,811.
(b) Treasury Circular No .IAI/2002/02 dated 28 November 2002.	A Fixed Assets Register had not been maintained for computers and related software purchased by the Project.
(c) Management Services Circular No.33 dated 05 April 2007 Paragraph No: 4.3.2	A sum of Rs.64,925 had been remitted to the Employee's Provident Fund and Employee's 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.

(d) Procurement Guideline 2006-
Paragraph 5.4.11

Details of Value Added Tax payments 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. However, details of Value Added Tax amounting to Rs.3.09 million paid to the contractors in 61 instances had not been informed accordingly.

(e) No:3 (vi) of Terms of Reference
of the Global Fund

Photocopies of the supporting documents instead of originals had been furnished with vouchers amounting to Rs.223,966 relating to the payments made on fuel in 05 instances.

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	US\$ million	Rs. million	US\$ million
GFATM	9.59	1,154.29	0.93	0.88	53.00	0.91	123.75	9.01	1,069.28
	<u>9.59</u>	<u>1,154.29</u>	<u>0.93</u>	<u>0.88</u>	<u>58.00</u>	<u>0.91</u>	<u>123.75</u>	<u>9.01</u>	<u>1,069.28</u>

5.2 Physical Progress

5.2.1 Detection and Treatment of Tuberculosis Patients

The following observations are made.

- (a) According to the reports presented for audit, slow progress on tests carried out for detection of Tuberculosis cases were reported in 06 districts. However, no evidence had been received on action taken to improve the performance on detection of Tuberculosis cases. According to the explanation made by the Project Director, the reasons for poor performance are assessed regularly and possible interventions are discussed and taken up with the provincial health authorities.
- (b) According to the Registers for Defaulter Tracing maintained at the chest clinics, high percentages of patients who do not continue medical treatments for Tuberculosis were reported in Jaffna, Mullativu, Colombo, Gampaha and Nuwara-eliya districts. The high percentage in defaulting of treatments indicates that the possible spread of Tuberculosis and remoteness of recovering of the patient who default treatments. However, the Project Director had explained that continuous attempts are being taken to minimize the defaulter rate through scaling up inspections and providing trainings for provincial health officers.

5.2.2 Microscopy Services

It was observed that 25 Microscopy Centres, out of 185 Microscopy Centres established by the Project was not functioned as at 31 December 2015. The Microscopy Centres at Padukka, Hambantota, Mannar and Murukkan were remained closed due to lack of technical staff. According to the explanation made by the Project Director, several Microscopy Centres were closed due to less cases detected and shortage of staff and combined with other Centres closed by. The equipments and other resources were transferred to the Centres with heavy work load.

6. Idle/ Under Utilized Assets

The following observations are made.

- (a) The Project had taken action during the year under review to procure 06 Semi Automated Bio Chemistry Analyzer at a cost of Rs.1.33 million and out of those, only 04 units had been supplied on 11 February 2015 eventhough it was agreed to complete the contract on 08 December 2014. Further, it was observed that the

Analyzer installed at chest clinics in Galle and Puttlam had remained idle for over 01 year due to lack of necessary chemicals .

- (b) The Project had procured 10 LED Microscopes for National Tuberculosis Research Laboratory and District Chest Clinics at a cost of Rs.4.07 million and out of those, 08 Microscopes received on 18 July 2014 had remained idle at the chest clinics up to 23 March 2016, due to lack of skilled staff to operate the Microscopes.
- (c) The TB Culture Laboratory constructed at the Teaching Hospital at Karapitiya in Galle had remained idle up 31 December 2015 since 16 July 2014, as necessary lab equipments not procured and installed.
- (d) According to the investigation reports, it was observed that Anti- TB drugs which were already expired or almost close to expire had remained in stores at 16 chest clinics island wide as at 31 December 2015. According to the explanation of the Project Director, a higher level of buffer stock is required to be maintained due to urgency of continuous treatments and therefore, the expiration of validity period of drugs is difficult to avoid. However, action had been taken to minimize the loss by splitting of annual purchase orders and receive drugs in divided stocks.

7. Human Resources Management

Eventhough the approved carder consisted with 80 TB Assistants, only 69 officers remained in the service during the year under review. It was observed that the activities of the District Cultural Centers, Laboratories, and Microscopy Centers had not been satisfactorily performed due to high staff turnover of the Project. The posts of Project Officers, Accountant, Procurement Officer, Monitoring and Evaluation Officer were regularly remained vacant during the year under review due to continuous dropping outs.

8. Issues on Financial Controls

It was observed that the controls over the use of fuel for motor vehicles of the Project were not satisfactorily implemented. The instances of misappropriation of cash in settlement of fuel bills and poor maintenance of running charts etc were regularly investigated in audit.