

TB New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project -2017

The audit of financial statements of the TB New Funding Model (NFM) Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project for the year ended 31 December 2017 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

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 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. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 7.91 million for strengthening Tuberculosis Control for New Funding Model and the entire amount was agreed to be financed by the GFATM. 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.
- (h) Whether the 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.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statement of Expenditure (SOEs) submitted could be fairly relied upon to support to the application for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Grant Agreement had been complied with

2.2 Comments on Financial Statements

2.2.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs. 242,228,920 equivalent to US\$ 1,588,806 and the cumulative expenditure as at 31 December 2017 amounted to Rs.358,630,817. The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2017 are summarized below.

Item	Expenditure for the year ended 31 December				Cumulative Expenditure as at 31 December 2017
	2017		2016		
	US\$	Rs.	US\$	Rs.	Rs.
Property, Plant & Equipment	169,801	25,887,480	16,121	2,475,850	28,363,330
Tuberculosis Control Activities	1,419,005	216,341,440	782,480	113,926,047	330,267,487
Total	<u>1,588,806</u>	<u>242,228,920</u>	<u>798,601</u>	<u>116,401,897</u>	<u>358,630,817</u>

2.2.2 Cash Flow Statement

As per the financial statements furnished for the year ended 31 December 2017 and previous year, position of the Cash Flow Statements is given below.

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	Rs.	US\$	Rs.
<u>Cash Flow from Operating Activities</u>				
Cash Received from Foreign Aid-Grant	1,181,871	180,188,023	720,805	104,822,167
Cash Received from Domestic Fund	92,281	14,069,151	13,587	1,602,826
Other Income	154	23,500	234	34,000
Direct Disbursement	357,473	54,500,287	-	-
Adjustments for Foreign Exchange Loss			(1,399)	-
Cash paid for Programme Expenses	(1,419,005)	(216,341,440)	(782,480)	(113,929,047)
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Surplus/(Deficit) for the year	212,774	32,439,521	(49,253)	(7,470,054)
Foreign exchange loss/gain	615	-	-	-
Depreciation	47,805	7,288,395	63,628	9,649,938
Gratuity	9,630	1,468,216	38,921	5,902,909
Gratuity paid during the year	(4,702)	(716,800)		
Increase in Payables	90,559	11,634,403	(35,690)	(5,412,688)
Increase in Receivables	(180,059)	(25,194,165)		
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Net Cash from Operating Activities	176,622	26,919,570	17,606	2,670,105
<u>Cash Flow from Investing Activities</u>				
Fixed Assets	(169,801)	(25,887,480)	(16,325)	(2,475,850)
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Net Cash Used in Investment Activities	(169,801)	(25,887,480)	(16,325)	(2,475,850)
<u>Cash Flow from Financing Activities</u>				
Cash Refund to the Ministry of Finance	(6,821)	(1,032,090)	-	-
Unsettled Advance	-	-	(1,281)	(194,254)
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Net Cash Flow from Financing Activities	(6,821)	(1,032,090)	(1,281)	(194,254)
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Net Increase /Net Decrease in Cash	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

2.2.3 Non-compliance with Laws, Rules, Regulations etc

It was observed that the financial controls on cash advances granted was not adequately adopted by the Project, due to the following reasons.

- (a) The ad-hoc sub imprest aggregating to Rs.29.59 million exceeding the maximum limit of Rs.100,000 had been granted in 31 occasions, contrary to the provisions made in the Financial Regulation No. 371(5) and Public Finance Circular No. 03/2015 dated 14 July 2015.
- (b) Eventhough the ad-hoc sub imprests should be granted on the immediate date before

the specific purpose, sub imprests aggregating to Rs. 2.91 million had been granted in 44 instances during the year under review for over 14 days before the due date. Further, it was observed that the ad-hoc sub imprests issued in 36 instances aggregating Rs.6.90 million had not been used for the intended purposes and settled with delays 01 to 11 months.

3 Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Grant Agreement		Allocation made in the Budget Estimate for the year 2017	Funds utilized			
	US\$ million	Rs. million		during the year 2017	as at 31 December 2017	US\$ million	Rs. million
GFATM	7.91	1,033.99	3.86	1.54	234.70	3.13	466.32
GOSL	-	-	-	0.09	14.07	0.10	15.67
Total	<u>7.91</u>	<u>1,033.99</u>	<u>3.86</u>	<u>1.63</u>	<u>248.77</u>	<u>3.23</u>	<u>481.99</u>

According to the above information, only US\$ 3.23 million equivalent to Rs.481.99 million had been utilized as at 31 December 2017, out of the total allocation of US\$ 7.91 million equivalent to Rs.1,033.99 million expected to be utilized during the period of the Project. Further, US\$ 41,955 equivalent to Rs.6.35 million had been refunded to the Ministry of Finance and Media at the end of the year under review including US\$ 6,821 equivalent to Rs 1.03 million made during the year under review, due to failures in achieving of financial targets for the year under review.

3.2 Physical Progress

According to the Progress Update and Disbursement Request of Tuberculosis Control for New Funding Model, 446 Budget Line Activities were scheduled to be implemented through 11 Budget Cost Categories for the year under review. It was observed that the allocation of US\$ 903,224 equivalent to Rs. 118.06 million had been made under 05 Budget Line Activities and out of that US\$ 259,059 equivalent to Rs. 33.86 million had only been utilized as at 31 December 2017. Further, the Project had spent US\$ 135,263 equivalent to Rs.17.68 million exceeding the allocation of US\$ 366,043 equivalent to Rs. 47.85 million made under other 03 Budget Cost Categories. The following further observations are made.

- (a) An allocation of Rs. 17.3 million had been made in the Action Plan for the year under review to conduct 217 training programmes to train Public Health

Inspectors, Nurses, Doctors and other relevant parties for identification of Tuberculosis patients who are not registered, directing them for treatment and conducting of clinics and awareness programmes for patients. However, only 120 programmes had been conducted during the year under review and only a sum of Rs.7.10 million had been spent thereon.

- (b) It was revealed in audit that the information relating to the Tuberculosis patients and the deaths occurred thereon etc was not readily made available at the Line Ministry, due to 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 the nature of the diseases.

3.2.1 Issues on Financial Control

The following observations are made.

- (a) The transactions of the Project during the year under review were not subjected to audit of the Internal Audit Section of the Ministry of Health, Nutrition and Indigenous Medicine, as per the Financial Regulation 133.
- (b) Physical verifications had not been carried out for the year ended 31 December 2017 in respect of fixed assets procured by the Project at a cost of US\$ 167,992 equivalent to Rs.25.42 million, since 2008.

3.4 Issues relating to the Procurement Procedures

The Project had procured 03 Gene Xpert Machine during the year under review at a cost of Rs. 21.66 million for the use of Chest Clinic at the National Institute of Health and Science in Kalutara, Teaching Hospital in Jaffna and the District Chest Clinic at Kegalle. It was observed that the Technical Evaluation Committee thereon had been appointed on 10 August 2017 with delays in 05 months after receipt of the approval of the Granting Agency. Further, the respective machines were supplied by the selected bidder on 27 December 2017 and 11 January 2018 with delays ranging from 04 to 06 weeks from the dates agreed to supply. Further, the Project Monitoring Unit had neither action had been taken action to enter in to a contract agreement nor to obtain a guarantee bond on advances amounting to Rs.2.20 million released thereon.

3.5 Matter in Contentious Nature

It was observed that a separate audit report had been issued by a firm of Chartered Accountant on the financial statements of TB New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2017 to the Ministry of Health, Nutrition and Indigenous Medicine and expressed qualified audit opinion thereon. However, the concurrence of the Auditor General had not been requested thereon.

3.6 Human Resources Management

Eventhough the approved carder consisted with 80 TB Assistants, only 60 officers remained in the service during the year under review. The duties to the District Cultural Centers, Laboratories and Microscopies Centers had not been satisfactorily performed, due to shortages of the TB Assistants. Further, the posts of 10 Estate Coordinator and 09 Data Entry Operators had also remained vacant over nearly 02 years as at 31 December 2017.