

HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project - 2018

The audit of financial statements of the HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2018 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 provisions in 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. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, the Ministry of Health Nutrition and Indigenous Medicine is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are the scaling up the national programme activities for the prevention, control and treatment of HIV/AIDS in Sri Lanka. The activities of the Project are implemented under HIV Component namely HIV New Funding Model Component. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 7.91 million equivalent to Rs.1,033.99 million was agreed to be financed by Global Fund to Fight AIDS, Tuberculosis and Malaria. The Project had commenced its activities on 01 January 2016 and scheduled to be completed by 31 December 2018. However, the date of completion of the activities of the Project had been extended up to 31 December 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Non-compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Financial Regulation No.371 (5) of the Democratic Socialist Republic of Sri Lanka and Pubic Finance	The ad-hoc sub imprest aggregating to Rs.8.74 million exceeding the maximum limit of Rs.100,000 had been	Possible misuse of funds, due to weaken controls.	Not commented.	Actions should be taken to obtain the approval of the General Treasury to provide advances

Circular No. 03/201 dated 14 July 2015. granted to the staff officers in 31 occasions. Further, it was observed that the ad-hoc sub imprest issued in 2 instances aggregating Rs.175,000 had not been utilized for intended purpose and settled with delays ranging from 46 to 87 days and the entire balances of sub imprest aggregating Rs.2.16 million had been settled subsequently without being utilized for intended purposes.

exceeding the ceiling amount and settled immediately after utilizing the intended purpose.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>According to the Progress Update and Disbursement Request of the HIV New Funding Model Component of the Global Fund to Fight AIDS, a sum of Rs.129.79 million had been spent to implement 51 activities during the year under review. However, 07 activities scheduled to be implemented at an estimated cost of US\$ 13,302 equivalent to Rs.2.16 million had not been completed as at 31 December 2018, eventhough such activities were required to be completed at the end of the year under review. It was observed that the allocation of US\$ 444,870 equivalent to Rs.72.31 million had been made under 30 Budget Line Activities and out of that US\$ 173,416 equivalent to Rs.28.19 million was only utilized at the end of the year under review. Further, the Project had spent US\$ 316,990 equivalent to Rs.51.52 million exceeding the allocation of US\$ 153,880 equivalent to Rs.25.01</p>	<p>Savings of funds without being completed planned activities.</p>	<p>Not commented.</p>	<p>Action should be taken to utilize the allocations and strengthen the financial controls.</p>

million made under 21 Budget Line Activities.

3.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The non-health equipment procured during the year under review at a cost of Rs.4.7 million for the use of 09 Base Hospitals in the Northern and Eastern Provinces to improve the sexual health services in the respective area and out of that 44 items of equipment had been distributed to the Hospitals in other 06 provinces.	Intended objectives not achieved.	Not commented.	Action should be taken to investigate the reasons.

3.3 Matters in Contentious Nature

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) It was observed that a separate audit report had been issued by a firm of Chartered Accountant on the financial statements of the HIV New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2018 to the Ministry of Health, Nutrition and Indigenous Medicine and expressed unmodified audit opinion thereon. However, the concurrence of the Auditor General had not been requested thereon.	Failure to comply with the laws and regulations	Not commented.	Actions should be taken to obtain the concurrence of the Auditor General.
(b) According to the information made available, the HIV/AIDS patients in Sri Lanka were gradually increased during previous years. As per records of the STD/AIDS Control Programme, 3,192 HIV/AIDS patients were reported at the end of the year under review compared with	The social impacts on spread of the disease cannot be measured and precautionary actions need to be implemented in effective manner.	Not commented.	Actions should be taken to review and develop modernized mechanism and educate vulnerable groups.

2,557 patients reported as at 31 December 2016. Further, 1,723 patients live in the populated areas in the Western Province and as a result, the possibility spreading of the disease among the vulnerable groups could not be ruled out in audit.

3.4 System and Controls

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(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.	Weaken financial control	Not commented.	Internal audit functions should be implemented.
(b)	The physical verifications had not been carried out for the year ended 31 December 2018 in respect of fixed assets procured by the Project at a cost of US\$ 744,103 equivalent to Rs.112.59 million, since 2008.	Physical existence of the assets cannot be measured.	Not commented.	Action need to be taken to carry out physical verification of assets of the Project.