

Tuberculosis New Funding Model Component of Global Fund to Fight AIDS, Tuberculosis and Malaria Project - 2019

The audit of the financial statements of the Tuberculosis New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2019 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. 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 is the Executing Agency and Implementing Agency of the Project. The objective of the Project is to strengthen the Tuberculosis Control Programme in Sri Lanka. The activities of the Project are implemented under Tuberculosis components namely Tuberculosis New Funding Model. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 2.588 million equivalent to Rs.404.89 million was agreed to be financed by Global Fund to Fight AIDS, Tuberculosis and Malaria. The Project had commenced its activities on 01 January 2019 and scheduled to be completed by 31 December 2021. However, the date of completion of the activities of the Project had been extended up to 31 December 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the tables 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 believed 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 Accounting Policies

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Accounting policies adopted for grants received directly from the Global Fund for the procurement of equipment had not been disclosed in the financial statements either cash	Risk to understate or overstate the grants received directly	The project is reporting to Sri Lanka Government as well as the Global Fund. The Global Fund reporting requirement is once a year. The main reporting format	Accounting Policies adopted for procurement of equipment should be disclosed in financial statements

basis or accrual basis.

from the is PUDR. This is preparing Global Fund on cash basis and according to format of GF Guideline. And the Financial Statement is produce to external Auditors and it is reporting on modified accrual basis. (As per GF guideline). So the two amounts are differing due to this reason.

2.2 Sri Lanka Accounting Standards

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Cash flow statement had not been prepared in terms Sri Lanka Accounting Standards 7 as cash inflows and cash outflows were not shown in the Cash Flows Statement.	Non-compliance with requirement of Sri Lanka Accounting Standard	Noted and we will adhere	Cash flows should be prepared in accordance with Sri Lanka Accounting Standards 7

2.3 Accounting Deficiencies

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Eight journal entries for Rs.202 million were passed for the preparation of financial statements, even though journal were not approved by the responsible officer and adjustments made through journal entries had not been posted to the Ledger Accounts. As a result, the amounts shown in the financial statements were not tally with balances shown in the Ledger accounts.	Financial statement may be manipulated through incorrect journal entries	The project normally passes the final Journal entries after the reviewing by foreign Audit (GF Audit) In year 2019 financial period, GF audit was ended on 21 st February 2021.Due to late in audit and before ending 2019 GF Audit, Project office sent the Financial Statements to Ministry for signature. And it is presented for local Audit (SL Audit). This issue was arising as a result of this reason.	Prompt action should be taken to implement an internal control system in regards to Journal entries

2.4 Un-reconciled Balances

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) As per note 05, actual cash expenditure during the year stated as Rs.122,042,011 whereas as per note 10.1 actual fund transfer from treasury shown as Rs.122,002,259. As a result, the difference of Rs.39,752 had been observed.	Non-comparability of figures shown in financial statements	This was typing error and we will rectify this error in 2020 financial statement.	Correctness of figures show in financial statement should be checked before presented for audit.
(b) The payable amount brought forward on January 1, 2019 shown as Rs.95,023,956 whereas the same item of transaction as per the audited financial statements of the previous year's closing balance was Rs.95,897,409. The difference of Rs.873,453 between opening balance and previous year's closing balances were not reconciled.	Risk of manipulating opening balances	Noted.	Opening balances should be reconciled with previous year's balances.

2.5 Non-Rendering of Evidence for Audit

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Sufficient appropriate audit evidences were not made available in the project office for the amount of Rs.3,670,594 written off during the year under review from Unspent Committed Liabilities for the year 2018.	Risk of written off ongoing balances of the Project	Noted, The amount Rs. 3,670,594/- coming from 2014/2015/2016 in the accounting system, and for 2019-2021 period, project started to enter transaction creating new company and assuming in the period of 2019-2021 GF will not pay previous grant commitments. So decided to write-off this amount to make tallying to new commitment of new grant (2019-2021).	Balances should be identified clearly before written off

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) Out of the total allocation of US\$ 2.951 million equivalent to Rs.461.68 million expected to be utilized during the period of the Project, only US\$ 0.682 million equivalent to Rs.122 million had been utilized as at 31 December 2019,. Further, US\$ 0.029 million equivalent to Rs.5.25 million had been refunded to the Ministry of Health at the end of the year under review.	Risk on achieve the objectives of the project and utilize the allocations in a timely manner.	Noted	Action should be taken to utilized allocations in timely manner.
(b) Total Provision of Rs.31,884,431 equivalent to USD 203,801 made under eleven budget line activities of the project had been saved during the year under review without being utilized for indented purposes.	Risk on accomplish the intended tasks	Noted, normally at the end of year project is re-estimating the existing budget lines which was not spent. These unspent BL reprogramming at year end PUDR request, so this amount had been reallocated in PUDR 2019 which is submitting on 2020.	Actions should be taken to utilize funds for the intended purpose
(c) 92 Budget Line Activities were scheduled to be implemented during the period of the Project through 12 Budget Cost Categories. However, it was observed that the allocation of US\$ 295,941 equivalent to Rs.46.3 million had been made under 24 Budget Line Activities and out of that US\$ 104,343 equivalent to Rs.18.72 million had only been utilized at the end of the year under	Risk on achieve the objectives of the project and utilize the allocations in timely manner.	Not commented	Actions should be taken to review and monitor the progress of the project continuously to ensure the project activities in line with the budget.

review. Further, the Project had spent US\$ 7,788 equivalent to Rs.1.392 million by exceeding the allocation of US\$ 4,693 equivalent to Rs.0.734 million made under Budget Line No.21 of in Service training for Nurses, PHI & other Hospital staff at district level.

3.2 System and Controls

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The physical verifications had not been carried out for the year ended 31 December 2019 in respect of fixed assets procured by the Project at a cost of US\$ 2.888 million equivalent to Rs.523.08 million, since 2008.	Control over the fixed assets of the Project would be weaken	Noted	Actions should be taken promptly to complete the physical verification.