

Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project Component of TB round 6 - 2012

1. 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 3 of this report. I am of opinion that.

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided ,
- (c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Grant Agreement had been complied with.

2. Financial Statements

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.112,514,556 and the cumulative expenditure as at 31 December 2012 amounted to Rs.654,545,769. The following statement shows a summary of expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 .

Item	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2012
	2012 Rs.	2011 Rs.	
Medical equipment and other assets	18,536,038	45,010,345	122,090,080
Tuberculosis control activities	93,978,518	174,969,016	532,455,689
	112,514,556	219,979,361	654,545,769

2.2 Cash Flow Statement

Cash Flow Statements prepared in accordance with the financial statements furnished for the years 2011 and 2012 are as follows.

	<u>2012</u> Rs.	<u>2011</u> Rs.
Cash Flow from Operating Activities		
Cash Received from Foreign Aid-Grant (Vote-13)	142,800,000	172,500,000
Tender Income	14,000	-
Cash paid for Programme Expenses	(93,978,518)	(174,969,015)
Advances given (Net)	(5,396,869)	48,940,488
Increase in Payables (WHT& Retention)	<u>(196,549)</u>	<u>(1,028,103)</u>
Net Cash from Operating Activities	<u>43,242,064</u>	<u>45,443,370</u>
Cash Flow from Investment Activities		
Fixed Assets	<u>(18,536,038)</u>	<u>(45,010,345)</u>
Net Cash Used in Investment Activities	(18,536,038)	(45,010,345)
Cash Flow from Financing Activities		
Cash Refund to the Ministry (Treasury)	<u>(24,706,026)</u>	<u>(433,025)</u>

- (a) The corresponding figures relating to the year 2011 had not been shown in the Cash Flow Statement in terms of Sri Lanka Accounting Standards No. 7.
- (b) A sum of Rs.24,706,026 or 17 percent out of the amount of Rs.142,800,000 received for the year under review had been returned to the Treasury.

3. Audit Observations

3.1 Accounting Deficiencies

The following observations are made.

- (a) Government contribution and Foreign Aid received for the Project had not been separately shown in the financial statements.
- (b) Three fixed assets items valued at Rs.7,194,554 purchased during the year 2012 had not been brought to the accounts.

3.2 **Non-compliance with Laws, Rules, Regulations etc.**

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules and Regulations -----	Non-compliance -----
(a) Procurement Guidelines of 2006 Section 4.2.3	48 weeks had been taken for procurement of 33 medical equipment to the value of Rs.11,985,009 instead of procure within 12 weeks.
(b) Financial Regulations	
(i) No.371 (2) (c)	Even though advances obtained, should be settled immediately after the completion of purpose for which its were granted, it was observed that 15 advances aggregating Rs.1,338,550 had been outstanding for the period ranging from 2 1/2 to 9 1/2 months.
(ii) No. 756	Physical verification in respect of fixed assets valued at Rs.122,090,080 had not been carried out for the year under review.
(c) Ministry of Finance and Planning circular No.MOFA/ERD/2007/02 dated 07 August 2007	Even though financial statements should be furnished to be audit on or before 31 March in the ensuing year, the financial statements of the Project for the year under review had been furnished only on 25 June 2013.

3.3 Management Weaknesses

The following observations are made

<u>Item</u>	<u>Value</u> Rs.	<u>Description</u>
(a) Training programmes	8,390,811	<p>(i) A sum of Rs.13,259,134 had been allocated for the training programmes during year 2012 and out of that a sum of Rs.4,868,322 had been spent. Accordingly, a sum of Rs.8,390,811 or 63 percent had not been utilized for training programmes.</p> <p>(ii) The entire provision made for MDR training (Multi-Drug Resistant) programmes had not been executed whilst under utilization of fund allocation of 05 programmes were ranging from 79 per cent to 99 per cent.</p> <p>(iii) Eventhough 130 training workshops were expected to be conducted for the officers in 2012, only 78 workshops had been conducted.</p> <p>(iv) The number of officers expected to be involved in the training programmes in 2012 was 3114. However, the actual number of officers participated in the programmes was 1803 only.</p>

(b) The supplier who had quoted highest price had been selected for supply of medical equipment, without considering deviations in the specifications.

<u>Item</u>	<u>Agreed Amount</u> Rs.	<u>Required Specifications</u>	<u>Items actually Supplied</u>
(i) Purchase of two Class II Bio Safety cabinets.	4,407,849	Outer chamber dimension shall not be less than 1300x1400x750 mm (WxHxD) and inner chamber should not be less than 1175x650x575mm	1390 x1380x748mm (WxHxD) 1200x635x425(WxHxD)
(ii) Purchase of two Centrifuge	1,792,000	Max speed 5000-6000rpm/max Max RCF 4600-6240Max	15,200rpm 25,830xg

3.4. Uneconomic Transaction

Advance amounting to Rs.100,000 paid for reservation of hotel could not be recovered due to failure to conduct the progress review meeting scheduled to be held in the hotel.

5. Utilization of Funds

The following observations are made.

- (a) The total budgetary provisions of the programmes aggregating Rs. 8,937,668 made for the year under review had not been utilized.
- (b) Although a sum of Rs.11,832,252 had been allocated in the budget for 14 Project activities only Rs.2,377,319 equivalent to 20 per cent of the total allocation had been utilized as at 31 December 2012.
- (c) A sum of Rs. 27,526,612 had been spent for more than budgetary provision for 8 activities without obtaining proper approval from the relevant authorities.
- (d) The agreed amount on the date of commencement of the Tuberculosis Round 06 on 01 January 2008 was US\$ 8,246,378 and the Project had agreed to finance the entire amount. Therefore the balance funds of US\$.1,191,432 had remained at the closing date of the Project without utilization for any project activities.

6. Internal Audit

Internal audit on the activities of the Project had not been carried out in terms of Financial Regulation 133.

7. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Project Director from time to time.

Special attention is needed in respect of the following areas of control.

- (a) Procurement
- (b) Stocks
- (c) Utilization of funds
- (d) Settlement of imprests and advances
- (e) Accounting