

**Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project - Component of Malaria Round 8 - 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**

As per the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs. 195,880,756 and the cumulative expenditure as at 31 December 2012 amounted to Rs.915,807,280. The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 are summarized below.

Category	Expenditure for the year ended		Cumulative Expenditure as at
	31 December 2012	2011	
	Rs.	Rs.	Rs.
Property, Plant and Equipment	26,021,667	23,011,831	83,496,826
Malaria control activities	169,859,089	592,235,828	832,310,454
	<u>195,880,756</u>	<u>615,247,659</u>	<u>915,807,280</u>

**2.2 Cash Flow Statement**

As per the Financial Statements presented for the years 2011 and 2012, position of the Cash Flow Statement is given below.

	Year ended 31 December	
	2012	2011
	----- Rs.	----- Rs.
<b>Cash Flow from Operating Activities</b>		
Cash received from Foreign Aid-Grant (Vote-13) and Foreign Aids related Domestic Funds- (Vote-17)	185,000,000	664,427,415
Cash received from Tender Income	14,000	68,435
Cash paid for programme expenses	(169,859,089)	(592,235,828)
Advances Given (Net)	41,207,573	45,291,618
Increase in Payables (WHT & Retention)	(80,403)	(1,066,109)
Net Cash from Operating Activities	<u>56,282,081</u>	<u>28,034,513</u>
<b>Cash Flow from Investing Activities</b>		
Fixed Assets	(26,021,668)	(23,011,831)
Refundable deposit - Locker	(40,000)	-
Net Cash used in Investing Activities	(26,061,668)	(23,011,831)
<b>Cash Flow from Financing Activities</b>		
Returned to the Treasury	(30,220,413)	(5,022,682)
	<u>(56,282,081)</u>	<u>(28,034,513)</u>

**3. Audit Observations**

**3.1 Accounting Deficiencies**

- (i) Breakup for retention money amounting to Rs. 1,285,650 had not been furnished as Notes to the Financial Statements as required by the Sri Lanka Accounting Standard No.01.

- (ii) Fixed assets valued at Rs. 6,544,142 procured during the year 2012 had not been brought to the accounts.

### **3.2 Non-compliance with Laws, Rules, and Regulations .**

Instances of non-compliance observed in audit are given below

#### **Reference to Laws, Rules and Regulations**

#### **Non-compliance**

- |  |   |
|--|---|
| a) Section 8.9.3 of Procurement Guidelines of 2006           | Procurement of equipment in six instances exceeding to the value Rs.500,000 had been made for Rs.9,142,542 without entering in to formal agreements.  |
| (b) Circulars of the Ministry of Finance and Planning        |   |
| (a) No. PF/FS/01/xxxv dated 24 April 2008                    | Air tickets amounting to Rs.62,800 had been purchased from a private firm and the approval of the Secretary to the Line Ministry had not been obtained in this regard.  |
| (ii) No. MOFA/ERD/2007/02 dated 07 August 2007               | Though it was necessary to submit the financial statements for audit on or before 31 March of the ensuing year, the financial statements of the Project (Component of Malaria Round 8) for the year under review had been submitted for audit only on 25 June 2013. |
| (c) Treasury Circular No .IAI/2002/02 dated 28 November 2002 | Fixed assets register had not been maintained on Computers and related software purchased by the Project for Malaria control activities.  |

(d) Financial Regulations

(i) No. 371 (2) (c)

Even though advances obtained, it should be settled immediately after the completion of the purpose for which they were granted, it was observed that a period of over 6 months had been taken to settle advances amounting to Rs. 2,095,540 in 26 instances.

(ii) No. 756

No physical verification had been carried out in respect of fixed assets valued at Rs.85,196,210.

**3.3 Management Inefficiencies**

Following observations are made.

<u>Item</u> -----	<u>Amount</u> ----- Rs.	<u>Description</u> -----
(a) Agreement entered into between the Malaria Control Campaign and the North Western University for control of mosquito larvae.	1,416,000	Although this programme was scheduled to be completed in June 2011, it had not been completed even up to April 2013.
(b) Granting advances	416,365	Due to failure in proper forecasting of expenditure, an amount of Rs.416,365 out of the advances given in 18 instances had been settled by cash after delay of considerable period.
	91,200	Advances obtained in 04 instances had been settled again after a period ranging from 01 – 04 months without being used for the relevant purpose.

(c) Training Programmes 7,315,495 Out of the allocation of Rs.7,315,495 made for training programmes for the year 2012, only Rs.3,945,162 had been utilized during the year under review.

### **3.4 Lack of Evidence for Audit**

The following items in the accounts could not be satisfactorily vouched due to non-availability of evidence indicated against each items.

<u>Item</u>	<u>Value</u>	<u>Evidence not made available</u>
(a) Purchasing of consumable goods	Rs. 548,250	(i) Particulars of the goods purchased, (ii) Invoices, (iii) Certificates for receipt of goods
(b) Allowances for resource persons	300,000	Proper approval from relevant parties and the supporting documents.

### **3.5. Identified Losses**

A supplier had been selected for the procurement of 150,000 disposable blood lancets at a rate of Rs. 3.75 per each and order was placed only on 15 May 2013. The supplier had claimed Rs. 450,000 for currency fluctuation at a rate of Rs. 3.00 due to the delay in Placing of order.

## **4. Financial and Physical Performance**

### **4.1 Utilization of Funds**

Following observations are made when compared with the budgeted and actual expenditure of the Project.

- (a) Although according to the activity plan of the project, a sum of Rs.335,191,005 allocated to be spent during the year under review, out of that, Rs. 30,220,413 or 16.34 per cent had been returned by the project to the Treasury at the end of the year without utilization for the activities.
- (b) Entire provisions aggregating Rs.54,601,333 allocated for the 18 activities for the year under review had not been utilized.
- (c) Although a sum of Rs. 182,690,020 had been allocated in the budget for 36 project activities , only Rs. 40,578,986 or 22 per cent of total allocation had been utilized as at 31 December 2012.
- (d) A sum of Rs.10,696,530 had been spent exceeding the budgetary provision for 15 activities .
- (e) A sum of Rs.650,171 had been spent for 04 activities during the year under review without provision in the annual budget.

**5. Physical Performance**

(a) Identification of Malaria Patients

The objective of Malaria component of the Project is eradicating p. falciparum malaria disease and controlling 75 per cent of p.vivax malaria disease. It was reported that 23 local malaria patients (04 patients p. falciparum and 19 patients p.vivax) and 64 patients came from the other countries in the year 2012.

(b) Distribution of Long Lasting Insecticide Net (LLIN)

Out of 1,274,000 LLIN (Olyset and Yorkool Types) purchased during the years 2011 and 2012, a number of 1,135,600 nets had been distributed by 31 December 2012.

Following observations are made in this regard.

- (i). A number of 138,400 LLIN had not been distributed as at 31 December 2012.
- (ii). Distributions had been made in the areas with a minority of people at risk than the areas with a majority of people at risk. Ex: Kandy, Matale, Hambanthota and Jaffna.

- (iii). A number of 4,201 mosquito nets had been distributed in excess than the amount allocated to Badulla District.
- (iv). Samples of Olyset and Yorkool Types of LLIN mosquito nets purchased had been sent to the Medical Research Institute and it had been checked whether the expected objective has been achieved by insecticides applied on those mosquito nets and on the active period of the insecticide. According to the quality test report dated 24 December 2012 of the Medical Research Institute, it had been reported that results of testing of those mosquito nets were not satisfactory.
- (v). It was observed that a data base in respect of mosquito nets distributed by Malaria Regional Offices had not been maintained by the Project office and no follow up action had been taken thereon.

(c) **Training Programmes**

The following observations are made.

- (i). A number of 181 training workshops were expected to be held for officers in the year 2012. However, only 139 workshops had been held during the year.
- (ii). Number of officers expected to participate at training workshops in the year 2012 stood at 6661 and the actual number of participants stood at 3172 which is 48 per cent of the expected number.

6. **Systems and Controls**

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

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