

Malaria Round 8 Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) - 2013

The audit of the financial statements of the Malaria Round 8 Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project, for the year ended 31 December 2013 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 13(b) of the Grant Agreement No. SRL-809-G10-M dated 17 September 2009 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement entered, into the Ministry of Health is responsible for Execution and Implementation of the Project including Project scope and activities, budgets, milestones and indicators. The objective of the Project is the intensive malaria control among the hitherto marginalized populations in conflict-affected districts in Sri Lanka who are presently afflicted with a very high malaria burden in Sri Lanka. The estimated total cost of the Project is US\$ 13,059,866 for Intensive Malaria Control Project for Round 8 and the entire amount was agreed to be financed by the GFATM. The Project commenced its activities on 1 September 2009 and was expected to be completed by 31 August 2014.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such tests of systems and controls, transactions, assets, liabilities and accounting records 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 Funding 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 specifications 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.
- (i) Whether the financial covenants laid down in the Grant Agreement had been complied with.

3. 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 5 of this report. I am of opinion that

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the project as at 31 December 2013 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 225,262,893(US\$ 1,734,716) and the cumulative expenditure as at 31 December 2013 amounted to Rs.1,142,769,557.The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are summarized below.

Category -----	Expenditure for the year ended 31 December -----				Cumulative Expenditure as at 31 December 2013 -----
	2013		2012		
	US\$	(Rs)	US\$	(Rs)	
Property, Plant and Equipment	794,548	103,887,202	204,637	26,021,667	189,083,412
Malaria Control Activities	940,168	121,375,691	1,331,184	169,859,089	953,686,145
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	1,734,716	225,262,893	1,535,821	195,880,756	1,142,769,557
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4.2 Cash Flow Statement

According to the Financial Statements presented for the years 2012 and 2013, position of the Cash Flow Statement is given below.

	<u>As at 31 December 2013</u>		<u>As at 31 December 2012</u>	
	US\$	Rs.	US\$	Rs.
Cash Flow from Operating Activities				
Cash received from Foreign Aid-Grant (Vote-13) and Foreign Aid related Domestic Funds- (Vote-17)	1,642,138	212,000,000	1,449,843	185,000,000
Cash received from Bid Income	-	-	110	14,000
Cash paid for Programme Expenses	(940,168)	(121,375,691)	(1,331,184)	(169,859,089)
Advances Given (Net)	118,936	15,551,033	324,061	41,207,573
Increase in Payables (Withholding Tax and Retention)	(8,291)	(1,108,174)	(947)	(80,403)
Foreign Exchange (Loss)/Profit	(8,859)		411	
Net Cash from Operating Activities	803,756	105,067,168	442,294	56,282,081
Cash Flow from Investing Activities				
Fixed Assets	(794,548)	(103,887,202)	(204,637)	(26,021,668)
Refundable Bid Deposits	-	24,000	-	-
Refundable Deposit - Locker	-	-	-	(40,000)
Net Cash used in Investment Activities	(794,548)	(103,863,202)	(204,637)	(26,061,668)
Cash Flow from Financing Activities(Returned to the Treasury)	(9,208)	(1,203,966)	(237,657)	(30,220,413)
	803,756	105,067,168	442,294	56,282,081

5. Audit Observations

5.1 Non-compliance with Laws, Rules, and Regulations .

Instances of non-compliance observed in audit are given below

<u>Reference to Laws, Rules and Regulations</u>	<u>Non-compliance</u>
(a) Financial Regulations	
(i) Financial Regulation 135 and Health Ministry Circular No SFA/01/2013 dated 21, January 2013 Paragraph 28 and 42	The authority limit for approving payment by Project Directors was limited to Rs.2,000,000. Contrary to that 7 transactions exceeding the prescribed limit aggregating to Rs.91,739,966 had been authorized by the Project Director. However covering approvals has been given in October 2014 by the Secretary to the Ministry of Health.
(ii) Financial Regulation 371 (2) (c)	Even though advances obtained should be settled immediately after the completion of purpose for which it is granted, it was observed that advances amounting to Rs.957,650 granted in 20 instances had been settled after delays ranging from 4 to 6 months.
(iii) Financial Regulation 756	A Physical verification had not been carried out in respect of fixed assets valued at Rs.189,083,412.
(b) Treasury Circular No .IAI/2002/02 dated 28 November 2002	A Register of Fixed Assets had not been maintained for the Computers and related software purchased by the Project for the malaria control activities.

5.2 Lack of Evidence for Audit

A sum of Rs.806,406 had been spent by the Project for the repair of a motor vehicle attached to Regional Director of Health of the Puttalam District. However, documentary evidence in support whether the respective motor vehicle belongs to Anti Malaria Campaign was not made available for audit.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review and the utilization of funds during the year under review and up to 31 December 2013 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Budgetary Provision for the year 2013	Funds received during the year		Funds utilized during the year 2013		Funds utilized up to 31 December 2013	
	US\$.Mn	Rs.Mn	Rs.Mn	US\$ Mn	Rs.Mn	US\$.Mn	Rs.Mn	US\$ Mn	Rs..Mn
GFATM	13.059	1,498	254.56	1.285	166.0	1.272	165.34	9.190	1,203
GOSL					46.0				
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	13.059	1,498	254.56	1.285	212.0	1.272	165.34	9.190	1203
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The following observations are made.

- Although a sum of US\$ 1.568 million equivalent to Rs.204 million had been received by the General Treasury only Rs.166 million had been released to the Project and out of that, Rs. 165.34 million only had been utilized by the Project.
- According to the Detailed Plan, US\$ 11.626 million expected to be released from 01 September 2009 to 31 December 2013, by the Global Fund and US\$ 9.914 million had been released to the Project and only US\$ 9.190 million had been utilized as at 31 December 2013 by the Project. The balance sum of US\$ 627,271 had been retained by the General Treasury.
- It was observed that US\$ 9.190 million equivalent to 70 per cent of approved Grant had only been utilized after elapse of 85 per cent of Project period. As such it is doubtful whether balance US\$ 3.89 million of the Grant could be utilized in the balance Project period of 09 months.
- It was observed that out of the total allocation of Rs.204,100,000 (US\$ 1,568,393) made by the Global Fund for the year under review, a sum of Rs.166,000,000 had been remitted to the Project. Out of that a sum of Rs. 39,304,040 or 19 per cent had not been utilized for project activities.
- Entire provisions aggregating Rs. 40,001,520 allocated during the year under review for 18 activities had not been utilized.
- Even though a sum of Rs. 127,712,520 had been allocated to the Project in the budget for the year under review for 27 activities, a sum of Rs. 39,338,919 or 31 per cent of that only had been utilized as at 31 December 2013.
- Further, a sum of Rs. 3,355,778 exceeding the budgetary allocations had been spent on 05 activities without proper approvals from the relevant authorities.

- (h) In addition , a sum of Rs.40,886,254 had been spent during the year under review for 09 activities not included in the Annual Budget of the Project .
- (i) A sum of Rs. 86,551,950 had been spent by the Project on the activities which should have been completed under Stage 1 of Malaria Round 8.

6.3. Physical performance

The following observations are made.

- (a) The objective of Malaria Component of the Project is to eliminate Indigenous Malaria by the year 2014. However, no Indigenous Malaria cases were reported during the year under review except 95 persons who had come to Sri Lanka from Malaria affected countries.
- (b) The Bids had been awarded during the year under review for the procurement of a Human Resources Software package at a cost of Rs 1,700,000 and out of that, a sum of Rs.1,275,000 representing 75 per cent of bid price had been paid to the supplier as at 31 December 2013. However, the following facilities to be provided according to the Terms of Reference had not been provided.
 - (i) Facilities to District Officers to access to the system through internet.
 - (ii) View facilities to District Officers of the information provided by the Head Office.
- (c) According to the Work Plan, a Polymerase Chain Reaction Laboratory was scheduled to be established before 30 September 2012. However action had not been taken for that purpose. The equipment valued at Rs. 4,872,944 purchased for the use of Laboratory remained idle due to delays in the construction of the Laboratory. The warranty period of such equipment had also been expired as at 31 December 2013.
- (d) According to the Agreement entered into by Ante Malaria Control Campaign with the University of Wayamba, the activities on controlling of mosquito larvae are required to be completed by June 2012. However, such activities had not been completed even up to August 2014.
- (e) The financial controls over the advances granted for the procurement of goods and services had not been satisfactorily implemented. It was observed that advances valued at Rs. 1,609,523 had been paid in excess in 49 occasions without obtaining estimates.
- (f) The transactions of the Project had not been subjected to internal audit with a view to strengthening the financial controls of the Project.

7. Systems and controls

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

- a) Budgetary Control
- b) Procurement of Goods
- c) Inventory Maintenance
- d) Settlement of Imprests and Advances
- e) Accounting
- f) Funds Management