

Malaria Round 8 Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project - 2014

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 2014 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, the Ministry of Health and Indigenous Medicine is responsible for execution and implementation of the Project. The objective of the Project is to intensive malaria control among the hitherto marginalized populations in conflict-affected districts in Sri Lanka. The estimated total cost of the Project is US\$ 13,059,866 for intensive Malaria Control Project for 8 Round and the entire amount was agreed to be financed by the Global Fund. The Project commenced its activities on 01 September 2009 and expected to be completed by 31 August 2014. The period of the Project had been extended subsequently up to 31 March 2015.

1.3 Responsibility of the Management for the Financial Statement

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.

1.4 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 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 2.2 of this report. I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the information provided in the financial statements agree with the information contained with other records maintained by the Project.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Remuneration amounting to Rs.7,187,273 paid during the year under review had been shown in the financial statements under the expenses on infrastructure and other equipment instead human resources expenses.

2.2.2 Non-compliance with Laws, Rules, and Regulations

The following instances of non- compliance were observed in audit.

- (a) In terms of Financial Regulation No. 371(2) (c), the advances obtained for procurement of goods and services should be settled immediately after the completion of the intended purpose. However, it was observed that period ranging from 2 to 8 months had been taken to settle advances aggregating Rs.2, 256,080 in 30 instances.
- (b) Physical verification in respect of fixed assets valued at Rs. 189,973,912 had not been carried out for the year under review as required by Financial Regulation No. 756.
- (c) The approval of the Department of Management Services had not been obtained for the cadre of the Project in terms of the Paragraph 2.1.2 of the Circular No.33 of 05 April 2007 of the Department of Management Services. Further, the post of the Project Director had remained vacant and present Project Director covers duties on acting basis for over 1 ½ years.

3. Financial and Physical Performance

3.1 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 2014 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Funds received during the year		Funds utilized during the year 2014		Funds utilized up to 31 December 2014	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	13.06	1,498	1.16	151.0	1.14	148.20	10.32	1,351.21
GOSL				3.0				
	13.06	1,498	1.16	154.0	1.14	148.20	10.32	1,351.21

According to the Grant Agreement, US\$ 13.06 million equivalent to Rs 1,498 million expected to be provided by the Global Fund and US\$ 10.94 million had been released to the Project as at 31 December 2014. Out of that US\$ 10.32 million equivalent to Rs.1,351.21 million had been utilized as at 31 December 2014 by the Project and the balance of US\$ 620,000 had been retained at the General Treasury.

3.2 **Contract Administration**

The following observations are made.

- (a) Construction of new circuit bungalow at Sinharagama in Anuradhapura District which was not included in the Budget Estimate had been carried out by using the savings amounting to Rs. 6,407,768 made under renovation of stores complex at Sinharagama.
- (b) The Project had taken action to procure and distribute Long-Lasting Insecticidal Nets under the vector control activity to the targeted specific population in conflict affected areas. Following observation are made in this regard.
 - (i) It was observed 3,685 Long-Lasting Insecticidal Nets had remained over 3 months at Sinharagama stores complex without being distributed
 - (ii) According to the minutes of monthly review meeting, 79 number of Long-Lasting Insecticidal Nets had remained at the Regional Malaria Offices in Jaffna for over a year without being distributed.
- (c) The Project had awarded a tender on 28 June 2013 to procure a HR Software package at a cost of Rs 1,700,000. However, the contract had not been completed even as at 31 March 2015 and access facilities to the district offices through internet had not been provided.

- (d) The laboratory equipment procured at a cost of Rs.4,872,944 on 09 December 2013 had remained idle up to 31 March 2015 due to delays in construction of Polymerase Chain Reaction Laboratory which was scheduled to be constructed before 30 September 2012. The warranty period of laboratory equipment had also been expired as at 31 December 2014.
- (e) According to the agreement entered into by 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 March 2015.

3.3 Financial Controls

The following observations are made.

- (a) The financial controls over the advances granted on procurement of goods and services was not implemented satisfactorily. It was observed that advances aggregating Rs.553,975 had been repaid in full, without using the intended purposes.
- (b) The transactions made on the activities of the Project were not subjected to internal audit as enable to strengthen the financial controls of the Project.
- (c) The surcharges amounting Rs.2,270,487 on Employees Provident Fund and Employees Trust Fund had been paid due to delays in making remittances.
- (d) The following observations made in the audit tests indicated that the Budget Estimate of the Project had not been used as an effective tool of financial controls of the Project.
 - (i) Entire provisions aggregating Rs.17,659,681 allocated during the year under review under 09 activities had not been utilized.
 - (ii) Out of total allocations amounting to Rs. 25,777,090 made in the Budget Estimate for the year review under 13 activities, a sum of Rs 3,634,038 representing 14 per cent of total allocation only had been utilized as at 31 December 2014.
 - (ii) Further, a sum of Rs.12,177,180 had been incurred for 17 activities excessively than the budgetary allocations without proper approvals from the relevant authorities.
 - (iv) In addition, a sum of Rs.1,796,340 had been spent during the year under review for 03 activities which were not included in the Annual Budget of the Project .