

## **Malaria New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project – 2017**

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The audit of financial statements of the Malaria New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2017 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. 898-LKA-M-MOH dated 29 February 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Grant Agreement of the Project, the Ministry of Health, Nutrition 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 who are presently afflicted with a very high malaria burden in Sri Lanka. As per the Grant Agreement, the estimated total cost of the Project amounted to US\$ 7.05 million equivalent to Rs. 921.28 million for intensive Malaria control for New Funding Model and the entire amount was agreed to be financed by the Global Fund. The Project commenced its activities on 01 January 2016 and expected to be completed by 31 December 2018.

### **1.3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 Donor 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 specification 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 the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Grant Agreement had been complied with.

**1.5 Basis for Qualified Audit Opinion**  
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My opinion is qualified based on the matters described in paragraph 2.2 of this report

**2. Financial Statements**  
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**2.1 Opinion**  
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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 2017 and the financial statements give a true and fair view of the state

of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statement of Expenditure submitted could be fairly relied upon to support to the application for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Grant Agreement had been complied with

## 2.2 Comments on Financial Statements

### 2.2.1 Financial Performance

The details of expenditure incurred for the year under review compared with the expenditure for the preceding year and the cumulative expenditure as at 31 December 2017 are summarized below.

Category	Expenditure for the year ended 31 December				Cumulative Expenditure as at 31 December 2017
	2017		2016		
	US\$	Rs.	US\$	Rs.	Rs.
Property, Plant and Equipment	672,527	101,760,132	220,794	33,920,523	343,410,626
Malaria control activities	1,765,608	269,180,284	991,446	147,745,226	1,714,396,816
<b>Total</b>	<b><u>2,438,135</u></b>	<b><u>370,940,416</u></b>	<b><u>1,212,240</u></b>	<b><u>181,665,749</u></b>	<b><u>2,057,807,442</u></b>

### 2.2.2 Cash Flow Statement

As per the financial statements presented for the years 2016 and 2017, position of the Cash Flow Statement is given below.

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	Rs.	US\$	Rs.
<b><u>Cash Flow from Operating Activities</u></b>				
Cash received from Foreign Aid-Grant	1,828,565	278,764,789	886,875	132,162,100
Foreign Aids related Domestic Funds	409,970	62,500,000	15,359	2,288,839
Proceeds received from Round 08 Vote 13	8,619	1,314,000	-	-
Cash received from Tender Income	164	25,000	54	8,000
Cash paid for Programme Expenses	<u>(1,765,608)</u>	<u>(269,180,284)</u>	<u>(991,446)</u>	<u>(147,745,226)</u>
Surplus / (Deficit) for the year	481,710	73,423,505	(89,158)	(13,286,288)
Depreciation	253,859	38,411,411	270,121	40,253,371
Decrease in Payables	(342,527)	(53,088,451)	492,429	75,651,863
Increase in Receivables	284,261	44,018,656	(434,086)	(66,688,699)
Provision for Gratuity	6,138	928,810	(7,474)	(1,113,732)
Exchange Difference	1,905	-	(5,026)	-
Gratuity paid during the year	<u>(3,260)</u>	<u>(493,337)</u>	<u>(6,012)</u>	<u>(895,992)</u>
<b>Net Cash from Operating Activities</b>	<b>682,086</b>	<b>103,200,594</b>	<b>220,794</b>	<b>33,920,523</b>
<b><u>Cash Flow from Investing Activities</u></b>				
Fixed Assets	(672,527)	(101,760,131)	(220,794)	(33,920,523)
<b>Net Cash used in Investment Activities</b>	<b>(672,527)</b>	<b>(101,760,131)</b>	<b>(220,794)</b>	<b>(33,920,523)</b>
<b><u>Cash Flow from Financing Activities</u></b>				
Cash Returned to the Treasury	(9,559)	(1,440,463)	-	-
<b>Net Cash from Financing Activities</b>	<b>(9,559)</b>	<b>(1,440,463)</b>	<b>-</b>	<b>-</b>
<b>Net Increase /Net Decrease in Cash</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

### 2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Eventhough the activities of the Malaria New Funding Model Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project had been commenced from 01 January 2016, the property, plant and equipment procured at Rs.210.80 million up to 31 December 2015 by the previous Project and handed over to the Line Ministry had been shown in the financial statements, as the assets of the Project.

- (b) Eventhough the Government of Sri Lanka had contributed a sum of Rs. 62.50 million during the year under review, a sum of Rs. 61.06 million had been brought to the Income Statement as the contribution of the Government of Sri Lanka due to an accounting error.

#### 2.2.4 Un reconciled Balances

The Project Monitoring Unit had not taken action to reconcile financial information of the Project with the records maintained by the General Treasury. It was observed that the direct disbursement of US\$ 474,055 equivalent to Rs. 72.27 million made during the year under review shown in the financial statements had not been recorded in the treasury records.

#### 2.2.5 Non-Compliance with Laws, Rules, and Regulations

The ad-hoc sub imprest aggregating to Rs.8.78 million exceeding the maximum limit of Rs.100,000 had been granted in 45 occasions, contrary to the provisions made in the Financial Regulation No.371(5) and Pubic Finance Circular No. 03/2015 dated 14 July 2015. Further, the sub imprest aggregating to Rs. 744,950 released in 11 occasions had been settled with delays in period ranging from 11 days to 05 months. In addition, eventhough the ad-hoc sub imprest should be granted on the nearest immediate date before the respective purpose, sub imprest aggregating to Rs. 910,175 had been granted in 1 1/2 months and 10 months prior to the due date in 14 instances during the year under review.

### 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, funds received during the year, the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Grant Agreement		Allocation made in the Budget Estimate for the year 2017	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review		as at 31 December 2017	
	US\$ million	Rs. million	US\$ million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	7.05	921.28	5.20	1.80	278.00	2.61	398.65
GOSL	-	-	-	0.40	61.06	0.40	61.06
<b>Total</b>	<b><u>7.05</u></b>	<b><u>921.28</u></b>	<b><u>5.20</u></b>	<b><u>2.20</u></b>	<b><u>339.06</u></b>	<b><u>3.01</u></b>	<b><u>459.71</u></b>

According to the Project documents, US\$ 7.05 million equivalent to Rs. 921.28 million was expected to be utilized during the period from 01 January 2016 to 31 December 2018 and only US\$ 2.61 million equivalent to Rs.398.65 million had been utilized even as at 31 December 2017. Further, an unutilized balance of Rs.20.32 million reimbursed from the Global Fund had remained in the General Treasury as at 31 December 2017.

### **3.2 Physical Progress**

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According to the Progress Update and Disbursement Request Reports of the Malaria Component, 183 Budget Line Activities were scheduled to be implemented through 13 Budget Cost categories for the year 2017. It was observed that 11 Budget Line Activities had not been implemented during the year under review and as a result, the allocations of US\$ 151,350 equivalent to Rs. 19.78 million had not been utilized. In addition, the physical progress of 73 Budget Line Activities implemented during the year under review had not been measured and reported as at 31 December 2017.

### **3.3 Matters in Contentious Nature**

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The following observations are made.

- (a) It was observed that a separate audit report had been issued by a firm of Chartered Accountant on the financial statements of Malaria New Funding Model (NFM) Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project for the year ended 31 December 2017 to the Ministry of Health, Nutrition and Indigenous Medicine and expressed qualified audit opinion thereon. However, the concurrence of the Auditor General had not been requested thereon.
- (b) It was observed that 06 motor vehicles had been procured during the year under review at a cost of Rs. 58 million and only a sum of Rs. 22.20 million had been allocated by the Project thereon. The balance amount of Rs. 35.80 million had been contributed by the Government of Sri Lanka with the concurrence of the Department of National Budget. Further, the Donor Agency had requested to distribute the motor vehicles to the areas in the island instead Northern and Eastern Provinces, the respective motor vehicles had been attached to the Regional Medical Officer's Offices at Killinochchi, Mullative, Kalmuneui in the Northern Province, Monargala and Badulla in the Uva Province and Kurunegala in the North Western Province. However, the files and other documents related to the procurement of motor vehicles had not been presented for audit.

### **3.4 Human Resources Management**

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It was observed that the posts of 02 Programme Coordinators, a Public Health Laboratory Technician, 03 Regional Data Entry Operators, 15 Microscopy Malaria Assistants and 11 Vector Control Assistants had remained vacant for over 02 years and no action had been taken to fill vacancies as at 31 December 2017, even though it was highly affected for the smooth operations of the activities of the Project.

### **3.5 Issues on Financial Control**

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The following observations are made.

- (a) The transactions of the Project during the year under review were not subjected to audit of the Internal Audit Section of the Ministry of Health, Nutrition and Indigenous Medicine, as per the Financial Regulation 134 (3).
- (b) Physical verification had not been carried out for the year ended 31 December 2017 in respect of fixed assets valued at US\$ 2.28 million equivalent to Rs. 345.11 million.