

Local Level Nutrition Interventions Programme for Northern Province Project - 2013.

The audit of financial statements of the Local Level Nutrition Interventions Programme for Northern Province 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 Section 2.04 (c) of Article II of the Project Agreement No.TF 097171 dated 31 January 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan Social Development Fund.

1.2 Implementation, Objective, Funding and Duration of the Project

According to Schedule 2 of Section 2.04 of the Finance Agreement, the Ministry of Health and Indigenous Medicine of the Northern Provincial Council is the Executing and Implementing Agency of the Project. The objective of the Project is to reduce the compounded effects of the global food and financial crises on the displaced population in the Northern Province of Sri Lanka, by reducing and maintaining rates among pregnant and lactating women and children below five years of age. According to the Project Approval Document, the estimated total cost of the Project is US\$ 2,731,700 (Grant) and was agreed to be financed by the Japan Social Development Fund. The Project commenced its activities on 31 January 2011 and is scheduled to be completed by 31 January 2015.

1.3 Activities of the Project

Part 1: Supply of Emergency Food Rations

During the initial 6 months period of the Project, provision of emergency food rations to improve food energy and protein (rice and pulses) to the following groups, in villages in the Northern Provincial Council with returning internally displaced peoples and for those living with host families.

- i) Undernourished pregnant women and/or those not gaining adequate weight
- ii) Lactating mothers (until 6 months post delivery)
- iii) Vulnerable pregnant and lactating women living with host families
- iv) Children under 5 years old experiencing growth stagnation, faltering or classified as being undernourished and
- v) Vulnerable children living with host families.

Part 2 : Capacity Building and Community Mobilization

During the initial 6 months period of the Project:

- i) Recruitment and training of community volunteers, health workers and members of women's groups, in basic nutrition, nutrition behavior change and community mobilization to promote appropriate infant and young child feeding and caring practices, nutrition in pregnant women and intake of micronutrient supplements.
- ii) Supply of basic equipment for weighing posts (height and weight measuring equipment and growth monitoring charts) and carrying out of minor repairs and renovations of damaged weighing posts and sections of local clinics.
- iii) Development and printing of culturally appropriate Behavior Change Communication materials, and
- iv) Community mobilization to improve nutrition.

Part 3 : Community – based Nutrition Interventions

Provision through volunteers, public health midwives and/or local health staff in each district of the following:

- i) Intensive behavior change counseling to malnourished pregnant and lactating women
- ii) Growth monitoring and promotion for mothers and guardians of children under 5 years of age
- iii) Supplementary feeding and house visits to mothers and children at risk and

- iv) Organization of behavioral change sessions for pregnant women, and mothers of small children to promote appropriate nutrition practices and the importance of hygiene. These sessions will also be targeted at husbands, mothers in law and adolescent girls.

Part 4 : Project Supervision, and Monitoring and Evaluation and Advocacy

- i) Support to the Recipient in the areas of Project management, coordination and monitoring including supervisory visits from the Provincial level to the district and village levels, and
- ii) Support for advocacy and resource mobilization by the Provincial Councils for increased support for nutrition initiatives and a follow-on program of longer – term nutritional interventions.

1.4 Responsibility of the Management for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. 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 Basic 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 an 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 test 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 controls so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operation of the Project.
- (b) 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 lending agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operation of the Project, the identification of the purchases made out of Grant etc.
- (c) Whether withdrawals under the Grant had been made in keeping with the specifications laid down in the Project Agreement.
- (d) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from the replenishments to the Imprest Fund Account had been truly and fairly

disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.

- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and;
- (i) Whether financial covenants laid down in the Project 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, and 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 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purpose for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) 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.

4. Financial Statements

4.1 Financial Performance

According to the Financial Statements and information made available for audit, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 150,075,990. A summary of the expenditure of the period under review and the preceding year and the cumulative expenditure as at 31 December 2013 are given below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2013
	<u>2013</u> Rs.	<u>2012</u> Rs.	Rs.
<u>Component – 01</u>			
Supply of Supplementary Food Rations	138,322,437	95,930,089	234,402,526
<u>Component – 02</u>			
Capacity Building and Community Mobilization	5,720,385	29,519,128	37,765,260
<u>Component – 03</u>			
Community Based Nutrition Intervention	--	14,673,235	36,697,964
<u>Component – 04</u>			
Advocacy, Project Supervision Monitoring and Evaluation	6,033,168	2,029,486	8,203,421
	<u>150,075,990</u>	<u>142,151,938</u>	<u>317,069,171</u>

4.2 Imprest Fund Account

According to the financial statements and information made available, the operations of the Imprest Fund Account during the year 2013 and the balance available in that account as at that date are given below.

	US \$	Rs.
Balance as at 01 January 2013	768,531	97,727,032
Add: Replenishments	1,164,835	50,182,960
Revaluation Gain	-	2,569,613
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	1,933,366	150,479,605
Less: Withdrawals	1,929,670	149,996,307
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Balance as at 31 December 2013	<u>3,696</u>	<u>483,298</u>

5. Audit Observations

5.1 Accounting Deficiencies

A Register of Fixed Assets in terms of Treasury Circulars No.842 of 19 December 1978 and Register of Fixed Assets for Computers, Accessories and Software in term of Treasury Circular No. IAI/2002/02 of 28 November 2002 had not been maintained by the Project to enable to verification of physical existence of the fixed assets purchased at a cost of Rs. 46,825,143 by the Project.

5.2 Lack of Evidence for Audit

Details on distribution of supplementary foods such as quantity of food supplied, details of samples given for microbiology laboratory tests for each batch and reports furnished thereon and list of beneficiaries etc. were not made available for audit examination.

6. Financial and Physical Performance

6.1 Funds Utilization

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and cumulative budgetary allocation and actual fund utilization as at 31 December 2013 are shown below.

Sources	Amount agreed under Grant Agreements		Budgetary Provision for the year 2013	Funds utilized during the year 2013	Cumulative Budgetary Provision up to 31 December 2013	Funds Utilized as at 31 December 2013	
	US\$	Rs. Mn.	Rs. Mn.	Rs. Mn	Rs. Mn.	US\$	Rs. Mn.
<u>Foreign Grant</u>							
Japan Social Development Fund	2,731,700	300.48	150	150.07	272	2,882,447	317.06

The following observations are made.

- It was observed that grant proceeds of US\$ 2,882,447 equivalent of Rs.317.06 million, out of US\$ 2,731,700 equivalent of Rs.300.48 million allocated for the Project had been utilized after implementing the Project activities over 03 years.
- The allocation made in the Annual Estimates of GOSL for the year 2013 under Head 315 - Northern Provincial Council - Programme - 02 Development Activities - Project 02 - Provincial Development and the actual expenditure incurred during the year 2011, 2012 and 2013 are given below.

<u>Year</u>	<u>Source</u>	<u>Provision</u> <u>Rs.</u>	<u>Expenditure</u> <u>Rs.</u>	<u>Percentage</u>
2011	Foreign grants	--	151,158,757	-
2012	Foreign grants	122,493,000	142,151,938	116%
2013	Foreign grants	150,000,000	150,075,990	100.05%
		<u>272,493,000</u>	<u>443,386,685</u>	

The actual expenditure had exceeded allocation and reasons thereon were not explained for audit.

- (c) According to the Grant Agreement, total grants amounting to Rs.300.48 million had been allocated for four components and out of that a sum of Rs.317.06 million had been incurred as at 31 December 2013. Accordingly, a sum of Rs.16.58 million exceeding the grant allocated had been utilized. Details appear below.

<u>Component</u>	<u>Amount of the</u> <u>Grant</u> <u>Allocated (in</u> <u>LKR)</u>	<u>Expenditure</u> <u>as at</u> <u>31.12.2013</u>	<u>Over / Under</u> <u>Expenditure</u> <u>(in LKR)</u>
(1) Supply of Supplementary Food Rations	193,748,390	234,402,526	40,654,136
(2) Capacity Building and Community Mobilization	45,897,170	37,765,260	(8,131,909)
(3) Community Based Nutrition Intervention	39,496,710	36,697,964	(2,798,746)
(4) Advocacy, Project Supervision Monitoring and Evaluation	21,344,730	8,203,420	(13,141,309)
	<u>300,487,000</u>	<u>317,069,171.06</u>	<u>16,582,171</u>

6.2 Physical Performance

The following observations are made.

- (a) Main activity of the Project is to supply foods (Jeevaposha) for targeted pregnant and lactating women and children under 5 years. The physical progress thereon is given below.

Category	Number of Beneficiaries targeted for Provision of supplementary food	Number of Actual beneficiaries provided supplementary food	Percentage
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Pregnant Women	9,000	6,084	67
Lactating Women	5,000	5,404	108
Infants	1,000	5,168	516
Children	11,000	11,478	104
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	<u>26,000</u>	<u>28,134</u>	

However, food had not been supplied to the children in the range of 2 - 5 years and as such malnutrition rate of that age group had not been reduced as expected under the objectives of the Project.

- (b) The supply of foods had been carried out through a private company and as such by involvement of Field Officers of the Regional Director of Health Services as recommended by the World Bank Mission had not been effective.

- (c) Delays in laboratory testing of samples of Jeevaposha were observed in audit. Therefore, such items had been distributed without testing of samples. In this connection the Secretary had stated that action was taken in several instances against the stock in stores close to the date of expiry. Further, no complaints were received by the Medical Officers of Health regarding the supervision and monitoring process thereon. Further, it was observed that validly expired stocks of Jeevaposha were found in several instances. According to the report of the Industrial Technology Institute and the Medical Research Institute, certain samples had failed the microbiological test. Therefore action had not been taken to ensure the quality food before distributed.
- (d) Details of community participation in supply of supplementary food in Jaffna District were not made available for audit.
- (e) Although 60 per cent of the project period had elapsed 31 December 2013, nine activities of the Project including food ingredients training, community advocacy and sensitization meetings at District and MOH levels, training of hospital staff and development communication specialist etc with an allocated US\$. 188,245 had not been commenced. In this connection the Secretary had stated that the food supply was made as a mix, instead of raw food items. As such, there was no need to give any training. Further, development of Communication Specialist and Nutrition Counselor could not be done due to Unavailability of the Specialists.

6.3 Assets Management

Equipment such as 180 adult and pediatric height and weight equipment procured at a cost of Rs. 6,645,532 during the year 2012 had not been fully utilized even as at 31 December 2013 by MOH Divisions due to several reasons such as lack of proper instructions for use such equipment and the office staff not being familiar with the operation of such equipments.

7. Systems and Controls

Special attention is needed for the following areas of control.

- a) Accounting
- b) Procurement