

## **Malaria Round 8 Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Project - 2015**

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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 2015 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.

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

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According to the Grant Agreement, then Ministry of Health, presently the Ministry of Health, Nutrition and Indigenous Medicine is responsible for execution and implementation of the Project. The objective of the Project is to sustain malaria free status by prevention of re-introduction of malaria and maintain zero mortality due to malaria in Sri Lanka. The estimated total cost of the Project amounted to US\$ 13,059,866 for Intensive Malaria Control Project for Round 08 and the entire amount was agreed to be financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria . The Project commenced its activities on 01 October 2009 and scheduled to be completed by 30 September 2014. Subsequently, the Global Fund had extended the period of the Project up to 31 December 2015.

### **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 judgement, 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 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 specification laid down in the Grant Agreement.
- (e) Whether the funds, materials and equipments 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 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 4 of this report.

## **2. 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 4 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the information provided in the financial statements agree with the information contained with other records maintained by the Project and
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

## **3. Financial Statements**

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### **3.1 Financial Performance**

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As per the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2015 amounted to US\$ 1,197,959 equivalent to Rs.162,850,628 and the cumulative expenditure as at 31 December 2015 amounted to Rs.1,505,201,277. The expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2015 are summarized below.

Category	Expenditure for the year ended 31 December				Cumulative Expenditure as at 31 December 2015
	2015		2014		
	US\$	Rs.	US\$	Rs.	
Property, Plant and Equipment	149,286	20,293,968	397	51,975	207,729,971
Malaria control activities	1,048,673	142,556,660	1,541,272	201,228,501	1,297,471,306
	<u>1,197,959</u>	<u>162,850,628</u>	<u>1,541,669</u>	<u>201,280,476</u>	<u>1,505,201,277</u>

### 3.2 Cash Flow Statement

As per the financial statements for the year ended 31 December 2015 and previous year, position of the Cash Flow Statement is given below.

<b><u>Cash Flows from Operating Activities</u></b>	<b><u>For the year ended 31 December 2015</u></b>		<b><u>For the year ended 31 December 2014</u></b>	
	<b>US\$</b>	<b>Rs.</b>	<b>US\$</b>	<b>Rs.</b>
Cash received from Foreign Aid-Grant	794,468	108,000,000	1,156,556	151,000,000
Foreign Aids related Domestic Funds	232,980	31,671,273	22,978	3,000,000
Cash received from Tender Income	331	45,000	314	41,000
Cash paid for programme expenses	<u>(1,048,673)</u>	<u>(142,556,660)</u>	<u>(1,152,291)</u>	<u>(150,443,193)</u>
Surplus / (Deficit) for the year	(20,894)	(2,840,387)	27,557	3,597,806
<b><u>Adjustments</u></b>				
Depreciation	267,173	36,319,519	-	-
Increase in Payables	1,063	846,270	-	-
Provision for gratuity	8,903	1,210,289	-	-
Foreign exchange (loss)/profit	3,946		(103)	-
Gratuity paid during the year	<u>(1,140)</u>	<u>(154,943)</u>		
<b>Net Cash from Operating Activities</b>	<b>259,051</b>	<b>35,380,748</b>	<b>27,454</b>	<b>3,597,807</b>
<b><u>Cash Flow from Investing Activities</u></b>				
Procurement of Fixed Assets	<u>(149,286)</u>	<u>(20,293,968)</u>	<u>(397)</u>	<u>(51,975)</u>
<b>Net Cash used in Investment Activities</b>	<b>(149,286)</b>	<b>(20,293,968)</b>	<b>(397)</b>	<b>(51,975)</b>
<b><u>Cash Flow from Financing Activities</u></b>				
Cash refunded at the General Treasury	<u>(109,765)</u>	<u>(15,086,780)</u>	<u>(27,057)</u>	<u>(3,545,832)</u>
<b>Net Cash used in Financing Activities</b>	<b>(109,765)</b>	<b>(15,086,780)</b>	<b>(27,057)</b>	<b>(3,545,832)</b>
Net Increase / (Net Decrease) in cash	Nil	Nil	Nil	Nil

#### 4. Audit Observations

##### 4.1 Accounting Deficiency

The employer and employee's contributions for Employees Provident Fund and Employees Trust Fund amounting to Rs.4.54 million payable as at 31 December 2015 for 182 employees of the Project had been disclosed in the financial statements as a note instead of taking into account. Further, surcharges payable thereon amounting to Rs.2.27 million had not been disclosed in the financial statements.

##### 4.2 Non-compliance with Laws, Rules, and Regulations

Instances of non-compliances observed in audit are given below.

#### Reference to Laws, Rules and Regulations

#### Non-compliance

(a) Financial Regulations

(i) Financial Regulation No. 371(2)(b)

Although advances obtained should be settled immediately after the completion of the intended activity, advances aggregating to Rs.8.63 million released in 187 occasions had been settled with delays in period ranging from 02 to 10 months.

(ii) Financial Regulation No. 756

Physical verifications had not been carried out for the year ended 31 December 2015 in respect of fixed assets procured at US\$ 457,524 equivalent to Rs.65.91 million.

(b) Treasury Circular No. IAI/2002/02 dated 28 November 2002.

A Register of Fixed Assets had not been maintained for computers and related softwares procured by the Project.

(c) Management Services Circular No.33 dated 05 April 2007  
Paragraph No: 4.3.2

A sum of Rs.330,549 had been remitted to the Employees Provident Fund and Employees Trust Fund as at 31 January 2015 by the

Project on behalf of 05 officers who already contributed to the Widows/ Widowers and Orphans Pension Scheme.

- (d) Procurement Guideline 2006-  
Paragraph 5.4.11

Details on payments of Value Added Tax amounting to Rs.28.73 million paid to the contractors in 151 instances had not been informed to the Commissioner General of Inland Revenue with a copy to the Auditor General.

## 5. Financial and Physical Performance

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### 5.1 Utilization of Funds

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Certain significant statistics relating to the financing and budgetary provisions for the year under review, funds received and its utilizations during the year under review and funds utilized as at 31 December 2015 are shown below.

Source	Amount agreed to be financed according to the Grant Agreement		Budgetary provision for the year 2015	Funds received during the year		Funds utilized			
	US\$ million	Rs. million		US\$ million	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million
GFATM	13.06	1,498	2.84	0.79	108.00	0.71	95.98	11.03	1,447.19
	<b><u>13.06</u></b>	<b><u>1,498</u></b>	<b><u>2.84</u></b>	<b><u>0.79</u></b>	<b><u>108.00</u></b>	<b><u>0.71</u></b>	<b><u>95.98</u></b>	<b><u>11.03</u></b>	<b><u>1,447.19</u></b>

The following observations are made.

- (a) Out of the proceeds of US\$ 0.79 million equivalent to Rs.108 million released to the Project by the General Treasury during the year under review, only a sum of US\$ 0.71 million equivalent to Rs.95.98 million had been utilized by the Project at the end of the year under review. Further, the proceeds of US\$ 109,765 equivalent to Rs.15.09 million had been refunded to the Ministry of Finance at the end of the year under review. However, payables amounting to Rs 7.83 million had remained outstanding as at 31 December 2015. Out of the allocation of

US\$ 13.06 million equivalent to Rs 1,498 million expected to be used for the period from 01 September 2009 to 31 December 2015, only proceeds of US\$ 11.03 million equivalent to Rs. 1,447.19 million had been utilized.

- (b) It was observed that out of allocations of US\$ 599,498 made in the Budget for the year under review under 13 activities, only US\$ 17,692 representing 03 per cent of total allocation had been utilized as at 31 December 2015. Further, the allocation of US\$ 741,138 made during the year under review for 56 activities had not been entirely utilized.
- (c) The Project had spent US\$ 3,794 under 03 activities exceeding the budgetary allocation without obtaining proper approval from the relevant authorities. In addition, US\$ 25,811 had been spent during the year under review to implement 17 activities which were not included in the Budget for the year under review of the Project.
- (d) Under the National Malaria Elimination and Prevention Re-introduction Programme, a Monitoring and Evaluation Plan had been prepared for the period from 2014 to 2018. Eventhough 161 activities under 06 categories had been identified by the Programme and implemented since 2014, the progress on activity based performance had not been reported even as at 31 December 2015. Further, the cost on implementing of the activities had not been estimated and shown in the Plan.
- (e) According to the Monitoring and Evaluation Plan for the period from 2014 - 2018, external reviews on performance of the National Malaria Elimination Programme should be carried out at regular intervals. However, such reviews had not been carried out by the Project after 2013. A time bound action plan which required to be prepared to implement the recommendation made by the World Health Organization in 2013 had not been prepared even as at 31 December 2015 by the Anti- Malaria Campaign and the Project Management Unit. Further, an assessment which required to be carried out to identify the future requirements had also not been made.



## **5.2 Physical Progress**

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### **5.2.1 Mobile Malaria Clinics**

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The Project had planned to carry out 2,640 Mobile Malaria Clinics for the purpose of early detection and prompt treatment to Malaria patients, under the Activity No. 7.2 of the National Malaria Elimination and Prevention Re-introduction Programme and allocation of Rs.8.58 million had been made in the Budget thereon. However, the Regional Malaria Officers had not used the standard formats introduced for reporting of monthly progress of the Clinics held and as a result, progress of the activities could not be evaluated.

### **5.2.2 Distribution of Long Lasting Insecticide Treated Nets**

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The Project had taken action to procure 800,000 Long Lasting Insecticide Treated Nets at a cost of Rs. 499.21 million and distribute such Nets for the people living in the vulnerable areas to provide a high coverage of personal protection without giving medicine. However, the effectiveness and suitability of Nets had not been evaluated by the Anti- Malaria Campaign and the details on criteria followed to select the beneficiaries had not been made available to audit. Further, it was revealed at the review meetings that the necessary instructions for the usage and cleaning of Nets had not been issued to the recipients at the time of distribution and as a result, distributed Nets were not used properly by the recipients.

## **6. Issues on Financial Controls**

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The following observations are made

- (a) It was observed that the financial controls over the cost of human resources was remained poor, as monthly salary sheets were not properly checked and authorized by the responsible officer and lack of proper records for no-pay leave.
- (b) The expenses amounting to Rs.357,444 incurred in connection with overtime, holiday payments and fuel etc. by the Anti-Malaria Campaign which were not related to the activities of the Project had been refunded and treated as the expenditure of the Project.
- (c) The financial controls over the advances granted to the staff of the Project and outside parties was not satisfactorily implemented. It was observed that advances had not been made on realistic estimates and as a result, a sum of

Rs.1.45 million equivalent to 34 per cent of the advances aggregating to Rs.4.24 million made in 2015 in 85 instances had been refunded without utilizing for intended purposes.

**7. Contract Administration**

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The Tender awarded to an outside party in 2013 to procure HR Software package at an estimated cost of Rs.1.70 million had not been completed even as at 31 March 2016. The advance of Rs.1.27 million made thereon in 2013 had remained outstanding for over 02 years without taking action to instruct the supplier to complete the work or terminate the contracts and recover the advances.

**8. Matters in Contentious Nature**

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The Anti- Malaria Campaign had entered in to an agreement in June 2011 with a local University to conduct a research on Effectiveness of Fresh Water Fish of Sri Lanka to Control Anopheles Larvae in Dry and Intermediate Zones of Sri Lanka and a sum of Rs.2.02 million had been paid as an advance, without applying the competitive bidding process for selection and obtaining a bank guarantee contrary to the provision made in the Clause Nos.188 and 189 of the Global Fund Budgeting and Financial Reporting Guideline. However, the report on the research had been submitted in March 2016 after lapse of 04 and 09 months of the date of the agreement. Further, the equipment procured at a cost of Rs.275,000 out of the proceeds of the Grant had not been handed over to the Implementing Agency eventhough such assets should be returned after completion of the research, according to the Clause 5.2 of the agreement.