

Malaria Component of the Global Fund to Fight AIDS, Tuberculosis and Malaria Project under New Funding Model – 2016

The audit of financial statements of the Malaria Component of the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) Project under New Funding Model for the first accounting year ended 31 December 2016 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

According to the Grant Agreement, 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 marginalized population in conflict-affected districts in Sri Lanka. 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 to Fight Aids, Tuberculosis and Malaria. 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

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

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, and
- (h) Whether the financial covenants laid down in the Grant Agreement had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 agreed with the information contained in other records maintained by the Project.

3. Financial Statements

3.1 Financial Performance

As per the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2016 amounted to US\$ 1.21 million equivalent to Rs.181.66 million. The details are given below.

<u>Category</u> -----	<u>Expenditure for the year ended</u> <u>31 December 2016</u> -----	
	<u>US\$</u>	<u>Rs.</u>
Property, Plant and Equipment	220,794	33,920,523
Malaria control activities	991,446	147,745,226
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	<u>1,212,240</u>	<u>181,665,749</u>

3.2 Cash Flow Statement

As per the financial statements presented for the year 2016, Cash Flow Statement of the project is given below.

<u>Cash Flow from Operating Activities</u>	<u>As at 31 December 2016</u>	
	<u>US\$</u>	<u>Rs.</u>
Cash received from Foreign Aid-Grant	886,875	132,162,099
Foreign Aids related Domestic Funds	15,359	2,288,839
Cash received from Tender Income	54	8,000
Cash paid for expenses	<u>(991,446)</u>	<u>(147,745,226)</u>
Surplus / (Deficit) for the year	(89,158)	(13,286,288)
Depreciation	270,121	40,253,371
Increase in Payables	492,429	75,651,863
Increase in Receivables	(434,086)	(66,688,699)
Provision for gratuity	(7,474)	(1,113,732)
Exchange difference	(5,026)	-
Gratuity paid during the year	(6,012)	(895,992)
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Net Cash from Operating Activities	220,794	33,920,523

Cash Flow from Investing Activities

Fixed Assets	(220,794)	(33,920,523)
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Net Cash used in Investment Activities	(220,794)	(33,920,523)
Net Increase/Net Decrease in Cash	Nil	Nil
Balance as at 01 January 2016	Nil	Nil
Balance as at 31 December 2016	Nil	Nil

4. Financial and Physical Performance

4.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review, funds received during the year, the utilization of funds up to 31 December 2016 are shown below.

Source	Amount agreed for financing according to the Grant Agreement		Funds received during the year		Funds utilized as at 31 December 2016	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
GFATM	7.05	921.28	0.89	132.16	0.81	120.65
GOSL	-	-	0.03	4.00	0.03	4.00
	<u>7.05</u>	<u>921.28</u>	<u>0.92</u>	<u>136.16</u>	<u>0.84</u>	<u>124.65</u>

4.2 Physical Progress

According to the information received, 41 Malaria patients comprising 28 Sri Lankans migrated after foreign employments and 13 foreign visitors were detected during the year under review within the island, even though Sri Lanka was declared as a Malaria free country in the previous year. Therefore, several activities such as providing the screening facilities for foreign workers and foreign visitors, conducting mobile clinics and entomological surveillance tests and awareness programmes for high risk communities etc, had been carried out during the year under review to mitigate the risks on spreading of the disease. The following observations are made.

- (a) The allocations aggregating Rs. 96.72 million made in the Annual Action Plan for the purposes of renovations and refurbishments of diagnostic laboratories, upgrading the facilities of regional centres, establishment of computerized system for entomological surveillance system and procurement of field equipments etc, had not been utilized

during the year under review due to delays in applying of procuring process and receiving necessary approvals thereon etc.,

- (b) As a regular feature, the participation of the officers for the training programmes organized by the Project was remained low. The test audit revealed that only 530 officers had participated for 05 training workshops organized by the Project during the year under review eventhough it was expected to participate 840 officers. As a result, a sum of Rs.3.16 million had only been utilized for the respective training workshops, out of the allocation amounting to Rs 5.76 million made thereon.

4.3 Issues relating to the Financial Controls

The following observations are made.

- (a) The internal control systems on sub - imprests made to the officers of the Project were not adopted as specified in the Financial Regulations. The instances observed are given below.
 - (i) The sub- imprests aggregating to Rs.457,575 had been granted in 03 occasions exceeding the limit of Rs.100,000 stipulated in the Financial Regulations No.371. The sub -imprests aggregating Rs.1.49 million released in 37 occasions had been settled with delays of period ranging from 14 days to 09 months. Further, sub- imprests made in 19 instances aggregating to Rs.632,275 had not been used for the intended purpose and settled with delays ranging from 03 to 226 days.
 - (ii) Although ad-hoc sub- imprests should be granted on the immediate date before attending the intended purpose, sub-imprests aggregating Rs.628,900 had been granted in 09 instances during the year under review for the period ranging from 25 days to 80 days before the due date.
- (b) Physical verifications had not been carried out for the year ended 31 December 2016 in respect of fixed assets valued at US \$ 1.58 million equivalent to Rs.243.35 million, procured by the project under previous funding model.

4.4 Human Resources Management

Action had not been taken to fill vacancies of the posts including 02 Programme Coordinators, 21 Malaria Assistants and 09 Vector Control Assistants which are highly affected for the smooth functioning of the Project even up to 14 June 2017.