

National Health Development Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Health Development Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 11 of the National Health Development Fund Act, No.13 of 1981 and in terms of provisions of the National Audit Act, No. 19 of 2018 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either

intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibility for the Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made

Non - compliance with reference to the relevant Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 47 of the Standard 3, material prior period errors should be retrospectively corrected in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the period presented in which the error occurred. However, without doing so, a sum of Rs.330,171 had been shown as prior year adjustments in the financial statements by adding to the income of the year under review.	Instructions have been given in terms of Sri Lanka Public Sector Accounting Standards to make prior year adjustments in ensuing years.	Action should be taken in terms of the Standard. Accounts for the year 2020 should be prepared and submitted after rectifying these errors.
(b) According to the paragraph 31 of the Standard 5, profit or loss arising in translating the foreign currency to local currency should be disclosed in the financial statements. However, the loss of Rs.309,272 arising in translating foreign currency, which had been identified by the National Eye Bank of Sri Lanka had not been disclosed in the financial statements of the Fund.	As the National Eye Bank is functioning as a project but not as a division of the Health Development Fund, separate accounting statements are not prepared therefor.	Action should be taken in terms of the Standard by identifying transactions of the National Eye Bank, in the financial statements of the National Health Development Fund. Accounts for the year 2020 should be prepared and submitted after rectifying this error.
(c) In terms of paragraph 69 of the Standard 7, depreciation of an asset begins when it is available for use and depreciation of an asset ceases when the asset is derecognized. Contrary to that, assets had been depreciated for the year derecognized instead of for the year of purchase without considering the date of purchase and the date derecognized.	As assets had not been purchased after the year 2013 on which preparation of financial statements of the Fund had been commenced in terms of the Standard, depreciation was not necessary in terms of the Standard and action will be taken to change the policy on depreciation after purchase of new assets.	Policy on depreciation should be prepared in terms of the Standard. Accounts for the year 2020 should be prepared and submitted after rectifying this error.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Property, plant and equipment with net value of Rs.5.93 million, current assets valued at Rs.6.87 million and current liabilities of Rs.8.3 million remained as at 31 December 2019 owned by the National Eye Bank of Sri Lanka which is a project of the Fund, had not been disclosed in the financial statements of the Fund. However, income and expenditure relating to the Bank had been computed on cash basis and combined to the Fund.	The National Eye Bank is functioning as a project but not as a separate division of the Fund. As such, it had been informed that assets and liabilities had not been disclosed in the financial statements of the Fund and those assets and liabilities have been inventoried until they are taken over after converting the National Eye Bank into a legal institution at the end of the project and it is further informed that after converting the National Eye Bank to a legal institution, income and expenditure thereof will be brought to account on accrued basis.	Action should be taken to disclose all information on assets and liabilities owned by the Eye Bank, in the financial statements of the Fund. Moreover, income and expenditure of the Eye Bank should be brought to account on accrued basis. Accounts for the year 2020 should be prepared and submitted by rectifying the said error.
(b) A sum of Rs.10.58 million receivable from the Division of Biomedical Engineering Services of the Ministry of Health as at 31 December 2019, had not been disclosed in the financial statements of the Fund.	It had been informed that the letter of confirmation issued by the relevant bank regarding the value of letter of credit, had not been received up to the date of preparation of final accounts - 2019, the difference of Rs.10.58 million between the amount provided to the Division of Biomedical Engineering Services to open the letter of credit and the value of bills, has been reimbursed by now and that action will be taken to disclose them in the financial statements in the ensuing year.	Accounts for the year 2020 should be prepared and submitted by rectifying the said error.

1.5.2 Unreconciled Control Accounts or Records

 The following observations are made

Item	Value as per the consolidated financial statements of the Fund	Value as per the financial statements of the National Eye Bank	Difference	Comments of the Management	Recommendation
	Rs. Million	Rs. Million	Rs. Million		
(a) Cornea processing charges of the National Eye Bank	42.75	39.47	3.28	As the National Eye Bank is functioning as a project per the Cabinet decision, until it will be legalized as a Trust, transactions thereof have been brought to account on cash basis.	Financial statements should be prepared so as to compare the balances of the financial statements of the Fund with the balances of the financial statements of the National Eye Bank. It should be rectified by finding out reasons for the difference.
(b) Expenditure of the National Eye Bank	48.40	49.21	0.80	-Do-	-Do-
(c) Minority interests of the National Eye Bank	9.96	23.00	13.04	-Do-	-Do-

1.6 Non Compliance with Laws, Rules, Regulations etc.

The following observations are made

Reference to Laws, Rules, Regulations etc.	Non compliance	Comments of the Management	Recommendation
(a) Financial Regulation 381 of the Democratic Socialist Republic of Sri Lanka	A savings account had been opened in a State Bank in the year 2016, without obtaining the approval of the Treasury and the balance of the said account as at 31 December 2019 was Rs.12.11 million.	The Financial Regulation 381 is referred only to official bank accounts and this is an account opened for management of moneys in the official bank account of the Fund and this account has been opened on the approval of the Board of Directors. However, action is being taken to obtain approval of the Department of Public Finance there for.	As this is an account relevant to the activities of the official bank account, the said approval should be obtained in terms of Financial Regulations.
(b) Paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014.	In terms of circular provisions, an Annual Action Plan targeted for achievement of objectives, had not been prepared.	Attention has been drawn towards the preparation of relevant plans.	Action should be taken to prepare relevant plans promptly and to achieve targets and objectives accordingly.

2. Financial Review

2.1 Financial Results

The operating results of the year under review had been a surplus of Rs.90.46 million as compared with the corresponding surplus of Rs.207.16 million for the preceding year, thus indicating a deterioration of Rs.116.70 million in the financial result. The increase in expenditure of the year under review by Rs.121.14 million had been the main reason for the above deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) According to the Memorandum of Understanding entered into with the Asia Cornea Foundation, Singapore in the year 2010 for establishment of the National Eye Bank of Sri Lanka and in terms of the Cabinet approval received on 29 August 2013 for establishment of the National Eye Bank of Sri Lanka as a Trust, action had not been taken even by 31 August 2020 to establish the National Eye Bank of Sri Lanka as a unit of separate institutional structure through an Act.	The Act for the National Eye Bank of Sri Lanka has been drafted to be forwarded to the Cabinet of Ministers by now and action is being taken in this connection by the Legal Division of the Ministry.	Prompt action should be taken in terms of an Act passed by Parliament to establish the National Eye Bank of Sri Lanka as a legal unit of separate institutional structure.
(b) Approval of the Cabinet had been granted to carry out activities of the National Eye Bank of Sri Lanka continuously as a project and to recruit the staff and to pay salaries as per the Management Services Circular No. 33 of 05 April 2007 until the National Eye Bank of Sri Lanka is established as a Trust. However, in terms of paragraph 1.1 of the Management Services Circular No.33, conditions required for considering the National Eye Bank of Sri Lanka as a project, were not fulfilled. As such, action could not be taken as per the Cabinet Decision.	That a Memorandum of Understanding has been prepared for making the Cabinet aware thereon and that future action will be taken to obtain the Cabinet approval therefor.	In terms of Management Services Circular No. 33 of 05 April 2007, the National Eye Bank could not be considered as a project and the staff could not be recruited accordingly. As such, the Cabinet of Ministers should be made aware and action should be taken to find out alternatives to be taken accordingly.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Measures had not been taken to return the sum of Rs.13.43 million remained as a cash balance of the Dengue Tools Project of which the period has expired in the year 2016, to the Donor Agency or transfer the said amount to the General Fund of the National Health Development Fund.	Action will be taken to account the cash balance of the project of which the project period was expired, as an income.	Action should be taken on cash balances retained after completion of foreign aid projects in terms of the Memorandum of Understanding, or action should be taken to transfer the said amount to the General Fund of the National Health Development Fund.
(b) Even though constructions of 17 contracts had been completed, action had not been taken to settle the retention money of Rs.1,429,775 brought forward over a period from 02 years to 6 years or to recognize it as an income.	Attention has been drawn to settle the retention money or to credit to the income.	Relevant contractors should be made aware on failure to request retention money and according to their responses, action should be taken to recognize the said money as an income or to take other appropriate action.
(c) Requirement of medical equipment of hospitals in the Central Government and in Provincial and District hospitals, not fulfilled by the Ministry of Health, had been Rs.9,845 million and Rs.2,131 million in the years 2018 and 2019 respectively. In addition to that, there were requirements of 130 essential medical equipment and 13 works and activities in general hospitals and 11 basic hospitals. However, a procedure was not available with the Fund to meet at least a part of those requirements using general funds on priority basis by finding out those shortages.	Many medical equipment indicated here have been provided by using provision made from the National Budget and the Treasury.	A procedure for utilizing general funds owned by the Fund should be prepared and implemented to meet requirements of the Health Sector.

- (d) The Cabinet approval had been obtained on 23 March 2011 for renovation of an existing building and establishment of a paying ward with an estimated cost of Rs.4.68 million in the Ampara General Hospital. However, contrary to that, a sum of Rs.18.20 million had been spent from the Fund for construction of a ground floor building comprising 08 rooms.
- As the number of private hospitals in the Eastern Province is at a minimum level, this building was constructed for the health service requirements of the people of the area.
- The Fund or the Ministry or the hospital did not expect all rooms of the paying ward to be occupied to the maximum with patients as soon as it was constructed and furthermore, there was no wish to recover the monies spent for constructing paying wards, from patients.
- As action had been taken contrary to the Cabinet approval, a covering approval should be obtained therefor. Moreover, action should be taken to effectively utilize the buildings constructed for health development activities and ensure that value for monies spent is gained by working together with the related institution.
- (e) A sum of Rs.11.48 million had been spent from the Fund for construction of 04 Maternal and Child Health Clinic Centres in the District of Kegalle. Out of the said sum, Rs.3.26 million was spent to construct the Weragoda Health Clinic Centre which had been peoplized in the year 2018 after completion of constructions and which had been used only for checking the weight of infants twice a month. As it was not made use of for any other clinical purpose even by 31 December 2019, the building had become underutilized. Moreover, the Wegalla Health Clinic Centre which had been constructed by spending a sum of Rs.3.32 million, had been peoplized in the year 2016. However, it had not been utilized for any clinical purpose whatsoever even by 31 December 2019. Moreover, the Thalawa Health
- The responsibility of operating Maternal and Child Health Clinic Centres in the District of Kegalle is assigned to the Sabaragamuwa Provincial Ministry of Health and the District Director of Health Services, Kegalle, the District Director of Health Services has informed that the defects are remedied and it is operated as an active institution, the defects in the Wegalla Health Clinic Centre have been remedied and clinical activities carried out and the Thalawa Health Clinic Centre has been provided with electricity and is
- Action should be taken to effectively utilize the buildings constructed for health development activities and ensure that value for monies spent is gained by working together with the related institution. Moreover, action should be taken to look into standard of construction and to get the defects observed, remedied in the relevant instance itself.

Clinic Centre which had completed constructions by spending Rs.2.19 million and peoplized in the year 2016, had been constructed with defects such as using substandard timber for doors and windows, non-function of ceiling fans, non-function of water pump, improper drainage of water in the staff toilet and non-function of the water tank. Even though the District Director of Health Services had been informed of these defects, it was observed that the said defects had not been remedied even by 31 December 2019.

operated with deficiencies.

- (f) The Hospital Lottery had been introduced in September 1998 with the motive of raising funds necessary for purchase of essential equipment for Government hospitals and for repairs thereof. Moreover, before each lottery draw, the function of the funds of that draw should be identified and published and the said function should be performed thereafter. Nevertheless, action had not been so taken. Only sums of Rs.17.43 million and Rs.80.47 million had been spent for purchase of equipment for hospitals and repairs thereof respectively out of income from lotteries amounting to Rs.328.33 million received from the year 2014 up to 30 June 2019 and it represented only 29.81 per cent of the total income from lotteries.
- Attention has been paid. Strict attention should be paid towards achievement of expected objectives through the Hospital Lottery

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>An undated Letter of Intent had been signed by the Secretary to the Ministry of Health, Nutrition and Indigenous Medicine and the Director General of Health Services on behalf of the Fund together with the Fight Cancer Trust (Guarantee) Ltd. with the intention of collecting public donations for the bank account in favour of Apeksha Hospital under the Fund for purchase of a Tomotherapy linear Accelerator for the Apeksha Hospital, Maharagama. However, the Fight Cancer Trust (Guarantee) Ltd. was not an institution authorized by the Department of Social Services as an institution related to charitable purposes for providing social services and public facilities. The date of signing the Letter of Intent and the effective date thereof had not been verified and in terms of the first matter of the said Letter, a Memorandum of Understanding had not been entered into by the three relevant parties even by 31 August 2020. In terms of the third matter of the Letter, the donors should be encouraged to make direct deposits in bank accounts. Nevertheless, contrary to that, public donations had been collected by going from house to house and a sum of Rs.255,500 said to be so collected, had been credited to the bank account.</p>	<p>That the Acting Secretary of Health had signed the Letter of Intent on 01 April 2019, the Director General of Health Services had signed on behalf of the Fund and as all people of the area cannot directly deposit monies, the Gintota Development Foundation has collected monies and handed over to the Minister directly and that the said monies have been deposited directly in the bank.</p>	<p>Attention should be paid towards the legal position of relevant external institutions before entering into agreements and memoranda. In accordance with matters agreed, action should be taken to enter into a Memorandum of Understanding. The donors should be encouraged for direct deposits. Public Officers should take action to avoid responsibility on matters carried out contrary to the above.</p>

3.4 Underutilization of Funds

 The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Donations of Rs.36.34 million received for 24 specific purposes had not been utilized for achievement of the intended purposes during a period ranging from 2 to 32 years.	Action will be taken to brief the relevant institutions to achieve the intended purposes by utilizing the said donations.	Receipt of funds as donations to the Fund for achievement of a specific purpose, should be utilized for that purpose.
(b) Programmes on the manner in which the general funds of the Fund should be utilized for the improvement of the health service in Sri Lanka, had not been prepared. A sum of Rs.362 million remained in the General Fund during the period from the year 2015 to the year 2019 had been saved without being utilized. Moreover, during the period of 05 preceding years, the percentage of expenditure for intended purposes cited in the Act, had gradually decreased from 76 per cent to 7 per cent of the total amount spent and in comparison with that, the percentage spent for unintended purposes had increased from 10 per cent to 35 per cent of the total amount spent.	Attention had been paid towards preparing relevant programmes and that monies received to the Fund are not utilized in the relevant year itself and as provision is made for the development of all institutions supplying health services in the island from the National Budget, the Fund makes provision for urgent requirements which are not provided by the National Budget.	Action should be taken to prepare relevant programmes promptly and to achieve targeted objectives accordingly. As the main objective of the Fund is to spend monies for the healthcare in Sri Lanka, monies should be invested in the Fund as much as possible for achievement of the said objective. Steps should be taken to identify the requirements of the Health Sector and to utilize monies therefor.

3.5 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Procurement requirements should be fulfilled by following Guidelines of the Government Procurement Guidelines. However, contrary to that, action had been taken to purchase 480 units of Cornea Storage Media Sterile (Vial) for the National Eye Bank by spending a sum of Rs.9.20 million in the year under review and to get the blood samples of eye donors tested by spending Rs.2.18 million for a private laboratory during the period from January to October 2019 without following any procurement procedure whatsoever. Even though open bids had been invited for selection of a laboratory for laboratory tests for November and December 2019, Guidelines 2.8.5 (b), 5.3.1, 5.3.11, 5.3.13, 5.3.19, 6.3.3, 6.3.6, 7.9.11 and 7.11.1 in the Procurement Guidelines had not been followed and a sum of Rs.862,750 had been paid for laboratory tests within the said two months to the laboratory so selected.</p>	<p>That action will be taken from the year 2020 by the Procurement Committee of the National Eye Hospital for selecting suppliers for purchase of Cornea Storage Media Sterile (Vial) for the Eye Bank and for testing of blood samples.</p>	<p>Action should be taken in terms of the Government Procurement Guidelines.</p>
<p>(b) A sum of Rs.30.08 million had been spent from the Fund for purchase of 01 unit of Independent Fractionation and Injection Unit for high energy Radiopharmaceuticals with automated injection unit for the Pet CT Scanner of the Apeksha Hospital, Maharagama. In terms of contract conditions, 80 per cent of the contract value should be paid after handing over the machine to the hospital and the remaining 20 per cent should be paid after providing relevant training and the certificate of acceptance. However, the full value of Rs.30.08 million had been paid on 24 December 2019 without confirming whether functional training had been provided by an expert of the institution of manufacture and the machine had been supplied in compliance with relevant specifications.</p>	<p>The Director had certified that the machine has been handed over in compliance with specifications, localized training has been provided and that the full value has been paid accordingly.</p>	<p>The procurement entity should take action to get the procurement carried out in terms of contract conditions. Moreover, the procurement entity should consider it their responsibility to make the full payment only after the specific verification of obtaining localized training and supply of the machine in compliance with specifications.</p>