

## **National Health Development Fund - 2013**

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The audit of financial statements of the National Health Development Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10(2) of the National Health Development Fund Act, No. 13 of 1981. My Report on the administration of affairs of the Fund mentioned in Section 10(4) of the Act that should be submitted to the Minister of Health in terms of Section 11 of the said Fund Act appears in the following paragraphs and the income and expenditure statement and the statement of investment of money owned by the Fund are forwarded as Annexure 1 and Annexure 2 respectively.

### **1.2 Management's Responsibility 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 Public Sector 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.

### **1.3 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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund for the 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 internal control of the Fund. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### 1.4 **Basis for Qualified 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 **Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Health Development Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

#### 2.2 **Comments on Financial Statements**

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##### 2.2.1 **Accounting Deficiencies**

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The following observations are made.

- (a) Instead of adjusting the adjustments of the preceding years amounting to Rs.239,596 retrospectively, it had been shown under other income of the year under review.
- (b) Fifty two sets of Dengue 1gm Elisa 96 type at a cost of Rs.1,972,152 had remained by 12 December 2014 and out of it, 33 sets had expired on 30 October 2014. Remaining sets were to be expired on 23 December 2014. However, provisions had not been made in the financial statements for this purpose.
- (c) Ten sets of Viral Extraction had been purchased on 14 March 2013 for the Dengue Surveillance Project and 5 sets valued at Rs.435,000 had remained as at 22 August 2014 on which physical verification was carried out. The said stock had expired in September and provisions had not been made in the financial statement for this purpose.
- (d) Twenty five Vials of Thermo Read TM Tag DNA Pd Ymer 1000 y type valued at Rs.242,500 had been purchased on 14 March 2013 and a balance of 24 vials valued at Rs.232,800 had remained idle by 22 August 2014. Even though the those sets had expired by that day, provisions had not been made for this purpose.

##### 2.2.2 **Accounts Receivable**

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Even though the performance surety bond of Rs.1,372,346 receivable from the Insurance company relating to a contract cancelled due to non- completion of constructions as expected, had lapsed for a period of six years, no action had been taken to settle it.

## 2.3 **Non- compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances with laws, rules, regulations and management decisions were observed.

| Reference to Laws, Rules, Regulations etc.<br>-----                              | Non compliance<br>-----  |
|--|--|
| Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>----- |  |
| (a) Financial Regulation 751   | Materials valued at Rs.20,036,550 purchased for the laboratory in the year under review for the Dengue Project had not been inventorized in the laboratory.  |
| (b) Financial Regulation 756   | Even though an annual board of survey should be conducted in all departments, such an annual survey had not been conducted in the laboratory in which purchases of high cost are made, relating to the Dengue Project. |

## 3. **Financial Review**

### 3.1 **Financial Results**

According to the financial statements presented, the operation of the Fund for the year under review had resulted in a deficit of Rs.46,900,783 as against the surplus of Rs.102,502,994 for the preceding year. A deterioration of Rs.149,403,777 had been shown in the financial result in the year under review as compared with the preceding year and an increase in expenses of health development projects by Rs.193,284,550 had mainly attributed to this deterioration.

### 3.2 **Composition of the Fund**

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The Fund consisted of Rs.172,006,888 of the General Fund comprising the lottery income and interest income, Rs.108,159,078 of local donations and Rs.65,473,802 of foreign donations received directly to the Fund. The amount received as foreign aids to the Fund had not been shown separately or revealed as foreign aids in the financial statement.

## 4. **Operating Review**

### 4.1 **Performance**

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The following observations are made.

- (a) A Fund had been established for the development activities of the De Soysa Maternity Home in the year 2004 and refurbishment and maintenance of the very old buildings of

the Maternity Home had been targeted. However, out of this, only minor purposes such as painting and fixing curtains had been carried out from the year 2004 to 31 December 2013 and the balance of the Fund at the end of the year under review amounted to Rs.1,647,495. As such, no action had been taken to fulfill the objective of the establishment of the Fund and it was observed that steps had not been taken to develop the Fund too.

(b) Board of Trustees of the Fund had decided in the year 2005 to account the public donations, collected to construct a cardiology unit for the Lady Ridgeway Children's Hospital, under the Health Development Fund. Even though a sum of Rs.947,101 had been collected from various donors from the year 2005 to year 2008, no funds whatsoever had been received up to 31 December 2013 after the year 2008.

(c) A sum of Rs.10,000,000 had been donated to the Fund by the State Pharmaceuticals Manufacturing Corporation of Sri Lanka in the year 2008 to obtain medical equipment required for soldiers who are treated at the Sri Jayewardenapura General Hospital. Out of the said donation, a balance of Rs.5,850,888 or 58.51 per cent had retained in the Fund even by 31 December 2013 without utilizing for the said purpose.

#### 4.2 **Management Inefficiencies**

A sum of Rs.783,200 had been estimated to hold clinics for kidney patients in the year 2013 and the actual expenditure incurred amounted to Rs.545,614. Out of the said expenditure, Rs.376,780 or 69 per cent had been incurred for transport expenses. Further, acceptable bills had not been submitted by the institution from which transport facilities were obtained.

#### 4.3 **Operating Inefficiencies**

One hundred and twenty sets of Dengue 1gm Elisa 96 type each had been purchased by spending Rs.4,551,220 in the years 2012 and 2013. Ninety six tests are carried out from a set and 1026 and 1098 tests had been carried out by the Medical Research Institute in the years 2012 and 2013 respectively. It was observed that 120 sets of this type had been purchased by spending Rs.4,551,220 for the requirement of approximately 23 sets of 1gm Elisa for the years 2012 and 2013 thus indicating excess purchasings.

#### 4.4 **Underutilization of Funds**

Out of the entire assets of the Fund amounting to Rs.372 million, Rs.312 million alone had been used as short term investments. It was observed that this amount had been retained as investments continuously without paying attention on fulfilling the objectives of the Fund.

#### 4.5 **Idle and Underutilized Assets**

A total of Rs.6,711,979 received for 05 constructions and maintenance activities had remained idle without fulfilling the relevant functions over a period ranging from 7 years to 26 years.

#### 4.6 **Uneconomic Transactions**

According to the programme presented for a study workshop conducted by the National Blood Transfusion Service, it was expected that 159 persons would participate in the workshop. However, only 122 persons had participated. A sum of Rs.124,410 had been overspent for supplying food for 200 persons due to non- implementation of a system of confirming on the officers who participated in this workshop earlier.

#### 4.7 **Deficiencies in Contract Administration**

The following observations are made.

- (a) It had been decided to make provisions from the Health Development Fund for the establishment of premises for an office of the National Authority on Tobacco and Alcohol on the 11<sup>th</sup> floor of the Sethsiripaya building. According to the estimate including taxes of Rs.3,202,797 submitted by the State Engineering Corporation for the said purpose, the contract had been awarded on 11 October 2013 and contract had to be completed within 3 months.

The following observations are made in this connection.

- (i) A formal agreement in respect of the contract in terms of paragraph V of the letter of awarding the contract had not been entered into.
  - (ii) In terms of paragraph III of the aforesaid letter, it had been notified that the valid period of the contract would not be extended in any case and if the contract could not be completed within the specified period, as per the terms of the agreement, demurrage should be charged relating to the period delayed. Even though the contract had to be completed by 20 January 2014, it had been completed only on 20 February 2014. Demurrage could not be recovered due to the unavailability of a formal agreement.
  - (iii) Even though a value of the work done amounting to Rs,111,058 had been shown as preliminaries under No.1 of the schedule submitted along with the last bill, it had not been confirmed in audit whether the work done had been under the said schedule.
  - (iv) Even though the value of the work done had been shown as Rs.2,452,522 in the last bill, adequate detailed work description and measurement sheets certified by the engineer had not been submitted along with the last bill to confirm the value of work done.
- (b) The Consultancy Bureau had requested to release the 5 per cent of retention money of Rs.2,682,715 as the maintenance period of one year relating to the construction of 20 clinics in Anuradhapura and Polonnaruwa districts, had been completed.

It was reported by the inspection report of 27 February 2012 that there had been shortcomings in many centres. In terms of the decision taken at the meeting of the Board of Directors dated 20 August 2012, the Civil Engineer of the Ministry of Health had been ordered that a field inspection should be carried out in respect of construction of these health centres and submitted a full report thereon and the Regional Director of Health Services and the Regional Medical Officer of Health should be made to participate in the said field inspection. As such, the Civil Engineer of the Ministry had issued a report on 10 September 2014 after inspection of the centres.

The following observations are made in this respect.

- (i) Even though 2 years had lapsed in submitting the relevant report from the date on which the decision had been taken, the centres in which the shortcomings existed had not been identified.
  - (ii) There was no evidence to confirm whether the Regional Director of Health Services and the Regional Medical Officer of Health had participated in the said field inspection.
- (c) The contract of construction of Athawatunuwewa Health Centre had been awarded for a value of Rs.5,334,273 and the date to be completed had been indicated in the agreement as 27 July 2013. Extension of dates had been made up to 27 September 2013 and it had not been reported that constructions had been completed and handed over even by 31 October 2014, the date of audit.

## 5. **Accountability and Good Governance**

### 5.1 **Action Plan**

The following observations are made.

- (a) An Action Plan for the year under review had not been prepared by the Fund.
- (b) Despite having a considerable amount in the General Fund of the Health Development Fund, it was observed in audit that the said amount had not been properly and effectively made use of in fulfilling the relevant objectives. The balance of the General Fund as at 31 December of several preceding years was as follows.

| Year  | Balance of the<br>Fund |
|-------|------------------------|
| ----- | -----                  |
|       | Rs.                    |
| 2013  | 172,006,888            |
| 2012  | 178,932,521            |
| 2011  | 110,895,505            |
| 2010  | 130,814,586            |

## 5.2 **Budgetary Control**

In the reconciliation of the estimated and actual expenditure of the Fund for the year under review, the estimated expenditure of the Eye Bank Project amounted to Rs.16,500,000 and the actual expenditure amounted to Rs.24,246,000 thus indicating an increase in the actual expenditure by 46 per cent. Even though a sum of Rs.100,000 had been estimated for repair of vehicles, no expenses whatsoever had been incurred during the year.

## 6. **Systems and control**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Fund. Special attention of the management is needed in respect of the following areas of control.

- (a) Advances
- (b) Control of Fixed Assets
- (c) Stores Control

## Income and Expenditure Statement

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 According to the financial statements presented, the income and expenditure of the year ended 31 December 2013 as compared with that of the preceding year are given below.

Year ended 31 December  
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|                                     | <u>2013</u> |                | <u>2012</u> |                  |
|-------------------------------------|-------------|----------------|-------------|------------------|
|                                     | Rs.         | Rs.            | Rs.         | Rs.              |
| <b>Income</b>                       |             |                |             |                  |
| -----                               |             |                |             |                  |
| Jathika Sampatha Lottery Income     | 61,357,280  |                | 52,560,260  |                  |
| Donations                           | 162,998,913 |                | 155,139,494 |                  |
| Investments Interest                | 35,699,162  |                | 30,538,493  |                  |
| Other Income                        | 33,244,203  |                | 9,878,521   |                  |
|                                     | -----       |                | -----       |                  |
|                                     |             | 293,299,558    |             | 248,116,768      |
| <b>Expenditure</b>                  |             |                |             |                  |
| Administration Expenses             | 2,004,795   |                | 1,597,636   |                  |
| Finance and Other Expenses          | 24,150      |                | 16,420      |                  |
| Health Development Project Expenses | 338,410,992 |                | 145,126,441 |                  |
|                                     | -----       |                | -----       |                  |
|                                     |             | 340,439,937    |             | 146,740,497      |
|                                     |             | -----          |             | -----            |
| Deficit/Surplus                     |             | (47,140,379)   |             | 101,376,271      |
| Prior year adjustments              |             | <u>239,596</u> |             | <u>1,126,723</u> |
|                                     |             | (46,900,783)   |             | 102,502,994      |
|                                     |             | =====          |             | =====            |



## Statement of Investments

## Fixed Deposits – People's Bank

| Certificate No. | Date of investment | Period of investment | Balance as at 01 January 2013 | Investments during the year 2013 | Withdrawals during the year 2013 | Balance as at 31 December 2013 |
|-----------------|--------------------|----------------------|-------------------------------|----------------------------------|----------------------------------|--------------------------------|
|                 |                    |                      | Rs.                           | Rs.                              | Rs.                              | Rs.                            |
| 865632          | 12/21/2012         | 3 months             | 63,000,000                    | -                                | -                                | 63,000,000                     |
| 865633          | 12/21/2012         | 3 months             | 23,000,000                    | -                                | -                                | 23,000,000                     |
| 865615          | 12/12/2012         | 3 months             | 20,000,000                    | -                                | -                                | 20,000,000                     |
| 865614          | 12/12/2012         | 3 months             | 20,000,000                    | -                                | -                                | 20,000,000                     |
| 865616          | 11/30/2012         | 3 months             | 15,000,000                    | -                                | -                                | 15,000,000                     |
| 331414          | 12/27/2012         | 3 months             | 1,500,000                     | -                                | -                                | 1,500,000                      |
| 379711          | 3/14/2012          | 01 year              | 10,000,000                    | -                                | -                                | 10,000,000                     |
| 865606          | 6/5/2013           | 3 months             | -                             | 50,000,000                       | -                                | 50,000,000                     |
| 865627          | 12/21/2013         | 3 months             | -                             | 35,000,000                       | -                                | 35,000,000                     |
| -               | 4/17/2013          | 6 months             | -                             | 11,000,000                       | 11,000,000                       | -                              |
|                 |                    |                      | 152,500,000                   | 96,000,000                       | 11,000,000                       | 237,500,000                    |

Treasury Bills  
National Savings Bank

| Certificate No.       | Date of investment | Period of investment | Balance as at 01 January 2013 | Investments during the year 2013 | Withdrawals during the year 2013 | Balance as at 31 December 2013 |
|-----------------------|--------------------|----------------------|-------------------------------|----------------------------------|----------------------------------|--------------------------------|
|                       |                    |                      | Rs.                           | Rs.                              | Rs.                              | Rs.                            |
| 2010100226            | 2012/10/04         | 91                   | 6,244,852                     | -                                | 6,834,947                        | -                              |
| 20101006221           | 2012/06/08         | 357                  | 19,592,146                    | -                                | 19,592,146                       | -                              |
| 2010060157            | 2012/06/08         | 357                  | 3,569,408                     | -                                | 3,569,408                        | -                              |
|                       |                    |                      |                               |                                  |                                  | -                              |
|                       |                    |                      | <u>29,406,406</u>             |                                  | <u>29,996,501</u>                |                                |
| <b>Bank of Ceylon</b> |                    |                      |                               |                                  |                                  |                                |
| 314                   | 2013/03/08         | 350                  | 14,388,333                    | -                                | -                                | 15,863,144                     |
| 314                   | 2013/12/27         | 182                  | 4,721,435                     | -                                | -                                | 4,816,955                      |
| 314                   | 2013/05/17         | 91                   | 23,505,905                    | -                                | 23,612,346                       |                                |
| 314                   | 2013/05/24         | 182                  | 7,556,080                     | -                                | 7,629,944                        |                                |
| 314                   | 2013/03/01         | 182                  | 5,883,461                     | -                                | 5,966,168                        |                                |
| 314                   | 2012/08/31         | 364                  | 11,475,942                    | -                                | 11,475,942                       |                                |
| 314                   | 2013/10/04         | 161                  | 39,425,005                    | -                                | -                                | 40,038,124                     |
| M10B-022269           | 2013/01/07         | 07                   | 20,000,000                    | -                                | 20,000,000                       |                                |
| M13B-026845           | 2013/12/30         | 04                   | -                             | 5,000,000                        | -                                | 5,000,000                      |
| M13B-026303           | 2013/12/20         | 13                   | -                             | 9,000,000                        | -                                | 9,000,000                      |
|                       |                    |                      |                               |                                  |                                  | --                             |
|                       |                    |                      | <u>126,956,161</u>            | <u>14,000,000</u>                | <u>68,684,400</u>                | <u>74,718,223</u>              |
|                       |                    |                      | <u>156,362,567</u>            | <u>14,000,000</u>                | <u>98,680,901</u>                | <u>74,718,223</u>              |