

National Health Development Fund – 2016

The audit of financial statements of the National Health Development Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No.38 of 1971 and Section 10(2) of the National Health Development Fund Act, No. 13 of 1981. My comments and observations which I consider should be published with the 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 including the income and expenditure statement and the statement of investment of money owned by the Fund as Annexure 01 and as Annexure 02 respectively appear in this report.

1.2 Management’s Responsibility for the Financial Statements

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

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 Auditing 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 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 Fund’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 Fund’s internal control. 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. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

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

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 2016 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

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Accrued expenditure amounting to Rs.3,888,820 as at 31 December 2016 relating to Phase II of the constructions of the paying ward at the Ampara General Hospital had not been brought to account.
- (b) Cornea processing charges of Rs.686,547 receivable as at 31 December 2016 to the National Eye Bank of Sri Lanka had not been brought to account and the advances amounting to Rs.4,101,282 received for the Corneas expected to be supplied in the ensuing year had been brought to account as an income of the year under review instead of accounting under pre-payments.
- (c) The value of property, plant and equipment amounting to Rs.5,536,558 received to the Eye Bank as donations and the depreciation thereon had not been brought to account.
- (d) The total sum of Rs.45,397,933 itself granted to the Eye Bank in the year under review had been debited to the income statement by the Fund, considering as an expenditure. According to the audit test check, out of the stocks of drugs and surgical materials purchased from the said amount, the stock of unidentified corneas valued at Rs.5,662,763 remaining as at 31 December of the year under review in the Eye Bank had not been shown as the closing stock in the financial statements. Moreover, the accrued expenditure of Rs.5,007,125 as at 31 December 2016 of the Eye Bank had not been brought to account by the Fund.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decisions	Non compliances
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(a) Section 8 of the National Health Development Fund Act, No.13 of 1981	Investment of a certain amount should be made by the Fund subject to the provisions of the Minister. However, sums of Rs.286,647,897 and Rs.506,402,243 had been invested in fixed deposits and Treasury Bills respectively without informing the Minister.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 381	A savings account had been opened in a state bank in the year under review without obtaining approval of the Treasury.

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 surplus of Rs.424,408,118 as compared with the corresponding surplus of Rs.6,443,292 for the preceding year, thus indicating an improvement of Rs.417,964,826 in the financial result of the year under review as compared with the preceding year. The decrease in expenditure on sundry projects by Rs.93,031,002 and the increase in receipts of donation by Rs.276,014,234 had been the main reason for the above improvement.

An analysis of financial results of the year under review and 4 preceding years revealed that the surplus of Rs.102,502,994 of the year 2012 had converted to a deficit of Rs.46,900,783 by the year 2013. However, there had been a continuous surplus after the year 2014 and the surplus of Rs.49,171,867 in the year 2014 had decreased to Rs.6,443,292 in the year 2015 and it had again increased to Rs.424,408,118 in the year under review. However, in readjusting employees' remuneration and depreciation for non-current assets to the financial result, the contribution of the Fund which was Rs.103,461,709 in the year 2012 had decreased to a negative value of Rs.45,800,448 in the year 2013. It had improved up to Rs.50,804,915 in the year 2014 and had again decreased to Rs.8,333,801 in the year 2015. Nevertheless, it had again increased to Rs.426,527,547 in the year under review. Even though donations and other grants received each year for specific purposes had been brought to account as income of the years, those monies had not been utilized in that year itself. As such, there had been significant variances in the financial result.

4. Operating Review

4.1 Performance

In terms of the National Health Development Fund Act, No.13 of 1981, the development and promotion of institutions providing health-care services in Sri Lanka, the promotion of research among, and the advancement of the education or knowledge of, persons engaged in the health-care services of Sri Lanka, ensuring so however that where any donation is received for the purpose of financing a particular project, such donation is, as far as practicable, utilized to finance that particular project and to finance any purpose leading towards the protection of the health of the people, and the purchase of medical equipment and essential drugs used for the purposes of health-care services in Sri Lanka are the objectives of the Fund. The matters revealed at the audit test check carried out on the achievement of those objectives are given below.

- (a) As the institutions providing health-care services in the rural areas were unaware that the assistance of the Fund could be obtained for minimizing a large number of shortcomings of those institutions and as appropriate steps had not been taken to make aware those institutions, the objectives of the Fund had not been adequately achieved. Accordingly, the funds existed in the General Fund of the National Health Development Fund each year from the year 2012 up to the year 2016 that could have been utilized for the year had been Rs.230,311,207, Rs.276,654,645, Rs.261,124,443, Rs.295,194,406 and Rs.358,057,285. However, out of those, 78 per cent, 62 per cent, 79 per cent, 82 per cent and 77 per cent had not been utilized respectively for the objectives of the Fund.
- (b) A foreign government had agreed to grant a donation of Rs.3,044,000 for providing spectacles for 3,000 visually handicapped students in the Kurunegala District and in terms of the Memorandum of Understanding, that project should be commenced on 01 October 2012 and should be completed in September 2013. Nevertheless, the donation received by the end of the year under review totalled Rs. 2,289,402 while the number of spectacles distributed had been 1,046 and the period of the project had been extended up to 30 September 2014. Even though 3,283 students in 12 Divisions of Medical Officer of Health had been identified, providing of spectacles had not been carried out by the Vision 2020 project and action had not been taken to identify visually handicapped students in 6 Divisions of Medical Officer of Health. As such, the physical and the financial progress of the project by the end of the year under review as well had been only 35 per cent and 48 per cent respectively and accordingly, the remaining grants of Rs.754,598 had been deprived of due to poor progress.
- (c) In order to conduct providence programmes of a project launched with the expectation of facing Avian influenza successfully during the period from the year 2014 to the year 2018, the United States of America had granted a financial aid of Rs.23,568,160 to that project during the year under review. The matters observed in respect of this project are given below.

- (i) An annual Action Plan had not been prepared inclusive of time frames, so as to enable the achievement of project objectives within the specific period.
- (ii) Provisions of Rs.21,673,080 had been made for 25 activities in the Work Plan prepared for the year under review and out of those activities, 16 activities for which provisions of Rs.9,288,284 had been made, had not been implemented.
- (iii) Even though 120 samples of Influenza Like Illness (ILI) and 120 samples of Severe Acute Respiratory Infection (SARI) each had been expected to be obtained from 17 hospitals annually at the rate of 10 ILI samples and 10 SARI samples from one hospital within one month, the progress in receiving samples had been at a weak level in the year under review and the number of samples received from 13 hospitals had been ranging from 5 to 60. Accordingly, whether follow up action had been taken to achieve a favourable progress was not confirmed in Audit. Moreover, only 552 tests out of 1,560 Influenza Like Illness (ILI) tests and 279 tests out of 480 Severe Acute Respiratory Infection (SARI) tests planned in the year under review had been carried out.

4.2 Management Activities

The following observations are made.

- (a) A Memorandum of Understanding had been entered into with the Asia Cornea Foundation in Singapore in the year 2010 in establishing the Eye Bank of Sri Lanka with modern technological facilities for minimizing blindness in Asia as well as providing corneas of high quality according to requirements of Sri Lanka and Asian countries. The matters observed in this connection are given below.
 - (i) In terms of paragraph 2.1 of the Agreement, the National Eye Bank of Sri Lanka had been agreed to be established as a Trust by an Act and the approval of the Cabinet of Ministers had been obtained therefor on 29 August 2013. However, that Act had not been presented to Parliament and come into operation even up to the date of this report.
 - (ii) The approval of the Cabinet of Ministers had been received to recruit staff according to Department of Management Services Circular No.33 of 05 April 2007 for the going concern of the National Eye Bank of Sri Lanka as a project until the Act comes into operation. Nevertheless, according to that Circular, the conditions required to be considered as a project had not been fulfilled and as such, action could not be taken according to the Decision of the Cabinet of Ministers. However, action had not been taken even by the date of this report to look for alternative measures which could be taken in that connection and to notify the Cabinet of Ministers thereon.

- (iii) In terms of the agreement, the progress in the functions which should be performed in achieving the objectives of the Eye Bank should be reviewed from time to time by the National Eye Bank of Sri Lanka and the Ministry. Nevertheless, action had not been so taken.
 - (iv) Nine Nursing Officers and 10 Health Assistant Officers who had been serving in the National Eye Hospital of Sri Lanka had been released on Secondary Basis for the duties of the National Eye Bank of Sri Lanka operated under the National Health Development Fund without attaching officers required, according to the service requirement. Moreover, in terms of provisions in Public Enterprises Circular No.95 of 14 June 1994, only benefits specifically approved by the Cabinet of Ministers, the Ministry of Public Administration or the Treasury could be paid with the approval of the Boards of Control. However, a sum of Rs.1,092,549 had been paid in the year under review to the above mentioned 19 officers as project allowances in addition to salaries and allowances entitled to them. Moreover, honorary allowances of Rs.853,800 had been paid to 3 officers of the Ministry of Health, 4 officers of the National Health Development Fund and 8 officers of the Eye Bank.
- (b) A sum of Rs.52.9 million had been granted by a foreign private company to initiate a family research project for clinically experimenting Dengue vaccines in the Division of Medical Officer of Health of Kolonnawa and the project was due to be commenced in December 2015 and completed in December 2017. The approved cadre for this project was 22 and the allowances to be paid to them as well had been approved by the Department of Management Services. However, allowances of Rs.344,400 had been paid in the year under review under this project to 6 officers including the Director General (Finance), Deputy Director General (Finance) of the Ministry of Health and the Accountant of the Fund not falling under the approved categories of posts.
 - (c) Even though the works of the contract on constructions of the ward complex of the Meegahakiwula Hospital had been discontinued, encashment of the performance surety of Rs.1,372,346 had not been carried out from a period of 7 years.

4.3 Procurement and Contract Process

The following observations are made.

- (a) A contract had been awarded to a value of Rs.5,334,272 for constructing the Gramodaya Health Centre in Ethawatunuwewa and works should have been commenced on 28 March 2013 and completed on 27 July 2013. The contract period could be extended, considering the requests made by the contractor with adequate evidence for confirming that the delay is occurred on matters beyond the control of the contractor. Despite not having made such evidence available and a request, the contract period had been extended by the Regional Engineer of the North Provincial Department of Buildings. Accordingly, as it was not a formal extension of days, a sum of Rs.533,427 should have been recovered as liquidated damages subject to a maximum of 10 per cent at the rate of 0.05 per cent for a day out of the basic contract value in terms of the contract agreement. Nevertheless, that amount had not been recovered.

- (b) Even though a contract had been awarded to a value of Rs.2,776,692 for repairs of the Dental Clinic of the Ananda Balika National School of Hingurakgoda, in terms of Guideline 8.9.1 of the Procurement Guidelines, a formal contract had not been entered into with the contractor. Moreover, a sum of Rs.1,855,163 had been paid for the final bill submitted by the contractor without an Engineer's certificate on the works executed.

4.4 Identified Losses

The software of the Specular Microscope by which the test required for grading based on the quality of the corneas is carried out, had not functioned properly from time to time. As such, the Board of Directors had decided to purchase a new machine. Nevertheless, that procurement had not been carried out even by June 2017. Accordingly, the income deprived of to the Eye Bank was Rs.2,774,548 in the year 2016 due to grading the corneas at a low level.

4.5 Transactions contrary to Objectives

The following observations are made.

- (a) The sum of Rs.400,000 donated by a private company through the Fund to the Association of Sri Lankan Neurologists (ASN) for achieving the main objectives of the said Association, had been used for the expenses of the cocktail party held on 20 November 2015 by that Association.
- (b) A sum of Rs.4,000,000 had been granted for holding the 129th Annual International Medical Summit of a professional association by the name Sri Lanka Medical Association and the Fund had spent a sum of Rs.7,894,450 for the printing purposes of that Association.
- (c) Even though provisions for granting loans to state institutions had not been made through the National Health Development Fund Act, an interest free loan of Rs.10 million had been granted on the basis of recovery in monthly installments to the Sri Lanka Ayurvedic Drugs Corporation on 07 June 2016 without entering into a formal agreement.

4.6 Underutilization of Funds

A sum of Rs.11,134,158 received as donations for 10 specific purposes had not been utilized for intended purposes between a period of 3 years and 29 years. Moreover, action had not been taken to utilize the said amount even for other suitable purposes as required.

5. Accountability and Good Governance

5.1 Action Plan

Out of the amount belonging to the General Fund of the National Health Development Fund, an Annual Action Plan should be prepared by the Fund for which, provisions had been made by Section 07 of the Act in compliance with the functions, action had not been taken to prepare an Action Plan from the inception itself of the National Health Development Fund.

5.2 Budgetary Control

Variations ranging from 23 per cent to 100 per cent were observed between the estimated and the actual expenditure of the Fund in the year under review, thus indicating that the budget had not been made use of as an effective instrument of financial control.

5.3 Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Funds Management	(i) Development of the trend in the utilization of funds belonging to the General Fund. (ii) Failure in taking action to utilize the money received for the relevant purpose.
(b) Control of Health Development Projects	Failure in taking action to obtain sound confirmation on participation in the payment of allowances for functions and various programmes and in incurring expenditure on food items.
(c) Contract Control	Failure in proper supervision of contract works.

Annexure 01

Income and Expenditure Statement

According to the financial statements presented, the income and expenditure of the Fund for the year ended 31 December 2016 as compared with the preceding year are as follows.

	Year ended 31 December			
	2016		2015	
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	Rs.	Rs.	Rs.	Rs.
<u>Income</u>				
Income from the Jathika	69,611,040		69,322,320	
Sampatha Lottery				
Donations	430,643,474		154,629,240	
Interest on Investments	50,513,772		20,527,297	
Other Income	70,785,220		51,628,084	
	-----	621,553,506	-----	296,106,941
 <u>Expenditure</u>				
Administrative expenses	2,925,352		2,534,903	
Financial expenses	145,302		23,010	
Health Development Project expenses	194,074,734		287,105,736	
	-----	(197,145,388)	-----	(289,663,649)
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Surplus		424,408,118		6,443,292
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Annexure 02

Investment Statement

Bank	Number of Certificate/Bill	Date Invested	Period of Investment	Balance as at 01 January 2016	Investments in the year 2016	Withdrawals in the year 2016	Balance as at 31 December 2016
				Rs.	Rs.	Rs.	Rs.
People's Bank – Fixed Deposits	1386001000052259	29/09/2016	6 months	23,000,000	-	-	23,000,000
	1386001000052277	29/09/2016	6 months	15,000,000	-	-	15,000,000
	1386001000037746	08/10/2016	6 months	1,500,000	-	-	1,500,000
	1386001000052295	29/09/2016	6 months	20,000,000	-	-	20,000,000
	1386001000052259	29/09/2016	6 months	50,000,000	-	-	50,000,000
	1386001000052268	29/09/2016	6 months	35,000,000	-	-	35,000,000
Bank of Ceylon – Fixed Deposits	78651737	12/02/2016	01 year	-	-	-	50,000,000
	78638673	10/2/2016	01 year	-	-	-	20,000,000
	78862661	2/3/2016	01 year	-	-	-	42,728,226
	78965346	18/3/2016	01 year	-	-	-	10,419,671
	778651776 (Eye Bank)	12/2/2016	01 year	-	-	-	19,000,000
							----- 286,647,897 =====
Bank of Ceylon – Treasury Bills	314			18,704,743	-	-	-
	314	23/12/2016	6 months	4,844,960	-	-	4,776,690
	314			40,388,919	-	-	-
	314	23/09/2016	6 months	19,347,040	-	-	20,825,003
	314	20/09/2016	6 months	12,500,000	-	-	28,768,650
	314	20/09/2016	6 months	80,000,000	-	-	48,031,900
Repo	1230034	27/12/2016	6 days	13,000,000	-	-	33,000,000
	1176831	14/9/2016	99 days	10,520,000	-	-	86,000,000
	*Information available.	not					25,000,000
	1232112	30/12/2016	30 days	-	-	-	260,000,000
							----- 506,402,243 =====