

## **National Health Development Fund – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National health Development Fund (“Fund”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 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 the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in the paragraphs 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**

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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, as applicable, 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 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

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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, misrepresentations, 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

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### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

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The following observations are made

<b>Non - compliance with reference to the Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) According to the paragraph 47 of the Sri Lanka Public Sector Accounting Standard 3, material prior period errors should be retrospectively corrected in the first set of financial statements after discovering them by restating the comparative amounts which were presented for the period that the error occurred. Without doing so, prior year adjustments of Rs.3,448,745 had been shown as expenses for the year under review in the financial statements.	Not commented	Actions should be taken as per the Sri Lanka Public Sector Accounting Standard. Accounts for the year 2019 should be prepared after rectifying these errors.
(b) According to the paragraph 31 of the Sri Lanka Public Sector Accounting Standard 5, profit or loss arising in converting foreign currency to local currency should be disclosed in the financial statements. However a sum of Rs.177,519 which had been identified by the National Eye Bank of Sri Lanka as a loss occurred in converting foreign currency had not been disclosed in the financial statements of the Fund.	Not commented	- do-

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| (c) | According to the paragraph 69 of the Sri Lanka Public Sector Accounting 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 requirement, a policy of not being depreciated for the year purchased and being depreciated for the year derecognized had been followed without considering the date of purchase and the date of derecognized. | Not commented | - do- |
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### 1.5.2 Accounting Deficiencies

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The following observations are made

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) It had been disclosed that revenue and expenditure of the Fund were accounted on accrued basis. However in amalgamation of revenue and expenditure relating to the National Eye Bank to the Fund it had been included in the financial statements on cash basis.	Not commented	Revenue and expenditure of the Fund and the National Eye Bank as well should be taken into accounts on accrued basis. Accounting policies followed by should be disclosed in the financial statements.
(b) Net value of assets belonged to the National eye Bank which is a project of the Fund i.e. Property plant and equipment amounting to Rs.9,339,612, cost of stock of medical and surgical supplies of Rs.2,890,100 accounts receivable amounting to Rs.1,059,391 accounts payable amounting to Rs.2,837,647, advances received amounting to Rs.1,876,949 and prepayments of Rs.365,673 had not been disclosed in the financial statements of the Fund.	Not commented	All information relating to the assets and liabilities of the National Eye Bank should be disclosed in the financial statements of Fund.

- (c) Financial and non-financial aid received from Asia Cornea Foundation amounting to Rs.12,873,923 and Rs.7,687,236 respectively during a period of 4 years from the year 2012 to the year 2015 for commencement of National Eye Bank of Sri Lanka had not been taken in to accounts. Not commented - do -
- (d) Actions had not been taken to identify the cost of the Eye Bank building of the Kandy Teaching Hospital which had been constructed under the grant of Asia Cornea Foundation and to take into accounts. Not commented - do -

### 1.5.3 Unreconciled Control Accounts or Records.

The following observations are made

Item	Amount as per the consolidated financial statements of the Fund	Amount as per the financial statements of the National Eye Bank	Difference	Comments of the Management	Recommendation
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	Rs. million	Rs. million	Rs. million		
(a) Cornea processing charges of the National Eye Bank	43.82	41.94	1.88	Not commented	Adjustments should be made after finding out reasons for the difference by comparing
(b) Expenditure of the National eye Bank	53.52	60.75	7.23	Not commented	balances of the financial statements of the Fund with the
(c) Minority interests of the National Eye Bank	15.07	29.23	14.16	Not commented	balances of the financial statements of the National Eye Bank.

#### 1.5.4 Documentary Evidences not made available for Audit

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The following observations are made

<b>Item</b>	<b>Audit evidence not supplied</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Fifty eight corneas being issued by the National Eye Bank for study and research purposes of external parties.	Information relating to request and issue of corneas and written evidence for taking over the corneas by the relevant parties.	Not commented	Information relating to request and issue of corneas made by external parties and documents to be confirmed taking over of corneas should be maintained.

#### 1.6 Non Compliance with Laws, Rules, Regulations etc.

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The following observations are made

<b>Reference to laws, rules and regulations</b>	<b>Non compliance</b>	<b>Management comment</b>	<b>Recommendation</b>
(a) Section 8 of the National Health Development Fund Act No. 13 of 1981	Although investments made by the funds belonged to the Fund should be done according to the directives made by the Minister, deviating the requirement, a sum of Rs.692,000,000 in fixed deposits and a sum of Rs.403,053,755 in Treasury Bills had been invested as at 31 December 2018.	Not commented	Actions should be taken as per the provisions of the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 71	Name of posts of 23 officers of the National Eye Bank had been changed and 3 new posts had been created and those officers had been	Not commented	Actions should be taken as per the Financial Regulations.

attached to the said new posts without obtaining the prior approval of the Deputy Secretary to the General Treasury and the agreement of the Secretary to the Ministry of Public Administration.

(ii) Financial Regulation 381	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 2018 was Rs. 8,073,404.	Not commented	- do -
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**2. Financial Review**  
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**2.1 Financial Results**  
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The operating results of the year under review amounted to a profit of Rs.207,163,462 and corresponding profit in the preceding year amounted to Rs.137,277,233. Therefore an improvement amounted to Rs.69,886,229 of the financial result was observed. The reasons for the improvement is even though the expenditure of the year under review had decreased by Rs.183,590,255, decrease of revenue by Rs.113,704,026.

**3. Operational Review**  
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**3.1 Management Inefficiencies**  
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The following observations are made

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) According to the Memorandum of Understanding entered into with Asia Cornea Foundation Singapore in the year 2010 for establishment of Sri Lanka National Eye Bank and the according to the Cabinet	Not commented	Actions should be taken as per the Memorandum of Understanding and the Cabinet Approval received to establish the Sri Lanka Eye Bank as a

Approval received on 29 August 2013 for establishment of National Eye Bank of Sri Lanka as a Trust, actions had not been taken to establish the National Eye Bank of Sri Lanka a unit of separate institutional structure through an Act and to prepare separate financial statements even up to 31 May 2019.

Trust.

(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. However as per the paragraph 1.1 of the Management Services Circular No.33, required conditions were not completed to consider the National Eye Bank of Sri Lanka as a project. Hence actions could not be taken as per the Cabinet Decision.	Not commented	It should be informed to the Cabinet that the National Eye Bank could not be considered as a project and the staff could not be recruited accordingly. Actions should be taken to find out alternatives and to act accordingly.
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### 3.2 Operating Inefficiencies

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The following observations are made

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	The Ministry of Health Nutrition and Indigenous Medicine had entered into an agreement with the Sight Life (SL), Seattle WA of United State of America for a period of 5 years in order to develop the National Eye Bank and to create a skilled eye staff. However, a sum of US\$ 14,000 could not be obtained due to the fact that, based on the year 2016, plans had not been prepared for the target of establishing branches of the Eye Bank in the main hospitals of the Island and supplying of corneas requirement and sufficient performance not being maintained.	Not commented	Actions should be taken as per the agreements entered into regarding the foreign aid providing for the development of the National Eye Bank.



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| (b) | A sum of Rs.13,433,573 had remained as a balance of the Dengue Tools Project which the period of the project was expired in the year 2016. However, actions had not been taken to transfer the said amount to the General Fund of the National Health Development Fund or to return to the Donor Agencies.   | Not commented | Actions should be taken as per the Memorandum of Understanding in connection with balances remained after completing foreign aid projects. If not those balances should be transfer to the General Fund of the National Health Development Fund. |
| (c) | Although constructions of 14 contracts had been completed , actions had not been taken to settle retention money of Rs. 1,128,619 brought forward for period of 2 to 5 years or to recognize it as an income.  | Not commented | Actions should be taken to settle the retention money or to recognize as an income.  |
| (d) | Training programmes relating to the fields of Cardiac Angiography and Gastric and Liver Cancer had been offered to 8 Korean medical officers in Colombo National Hospital, Kandy Teaching Hospital and Maharagama Apeksha Hospital during the period from 18 December 2017 to 09 February 2018 with the corporation of World Health Organization and the Ministry of Health Nutrition and Indigenous Medicine. The following observations are made in this regard. |               |  |
|     | (i) A sum of Rs.1,400,000 received to the Health Development Fund in the year 2017 for training had not been credited to the State Revenue.  | Not commented | All foreign funds should be credited to the State Revenue.   |
|     | (ii) Although approval of the Director Establishment had been granted to pay Rs.60,000 for 6 resource persons for the training of the field of Cardiac Angiography, a sum of Rs.132,500 had been paid to 12 resource persons.  | - do -        | Payments should not be made contrary to the instructions of the Director Establishment   |

- (iii) A sum of Rs.1,890,857 - do -  
 remained after completing the training course had not been refunded to the World Health Organization as per the agreement entered into with the said Organization. Actions should be taken as per the Memorandum of Understanding.
- (e) It had been entered into an agreement -  
 with the World Health Organization to offer training programmes for foreign medical and paramedical students in Anuradhapura and Kandy Teaching Hospitals. The following observations are made in this regard.
- (i) Names of officers, posts and official stamps had not been placed for the both parties in the agreement entered into between the World Health Organization and the Anuradhapura Teaching Hospital as per the instructions of the Director General of Health without obtaining the approval of the Secretary to the Ministry. As a result responsible parties for the conditions included in the agreement could not be identified. Not commented. It should be entered into agreement in proper way. The Secretary to the Ministry should be informed for such agreements and the Approval should be obtained.
- (ii) A sum of Rs.6,198,126 equal to - do -  
 Sterling pounds (GBP) 30,900 which had been received to the Anuradhapura Teaching Hospital as training course fees had been credited to the Fund without crediting to the State Revenue contrary to the provisions of the Section 7 of the National Health Development Fund Act No.13 of 1981. Actions should not be taken contrary to the provisions of the Act and all foreign funds should be credited to the State Revenue.

(iii) A sum of Rs.27,551,528 had been received to the Kandy Postgraduate Medical Centre in the years 2017 and 2018 as training course fees of the students who were trained in the Kandy Teaching Hospital. However this amount had been credited to the account of the Kandy postgraduate Medical Centre without crediting to the State Revenue or to the Fund. Out of that, a sum of Rs. 20,022,335 had been spent by the Centre without any authority.

A proper investigation should be carried out in connection with spending money without any authority.

### 3.3 Transactions in Contentious Nature

The following observations are made

Audit Issue	Management Comment	Recommendation
(a) In a ground of the requirement for considering the National Eye Bank of Sri Lanka as a project not being fulfilled, a sum of Rs.3,355,168 had been paid to 29 officers during the year under review as honour allowances and project allowances based on the Management Services Circular No. 33 dated 05 April 2007.	Not commented	Payment of allowances contrary to the provisions of Circulars should be avoided. Actions should be taken to obtain the approval of the Director Establishment to the payments made or to be recovered.
(b) The following observations are made in connection with sale of blood plasma by the National Blood transfusion Service during the period of 9 months from January to September 2018.		
(i) A sum of Rs.91,298,655 generated from the sale of blood plasma had been credited to the Central Blood Bank Development Fund Account of the without a proper authority instead of being credited to the State Revenue.	Not commented	Revenue generated from the sale of blood plasma should be credited to the State Revenue.

- (ii) Cheques obtained from the buying company had been obtained in favour of the Fund instead of being obtained in favour of the National Blood Transfusion Service. Even though receipts issued by the Fund for the cheques should be issued on behalf of the funds received from the sale of blood plasma, receipts had been issued as a donation made to the Fund by the relevant company for requirements of the Blood Transfusion Service instead. - do -
- (iii) According to the Section 13(4) of the National Health Development Fund Act, the donor of the donation made to the Fund is allowed to tax free concession for the total value of the donation for the purposes of the Inland Revenue Act No.28 of 1979. As a result, the tax income to be received to the Government had lost. - do -
- (c) A basis and a specific policy for granting financial aid for external parties as to be complied with the Objectives and the Functions of the Fund had not been identified. Financial aid of Rs.21,044,400 had been granted to 14 number of various associations and institutions during only the year under review for the activities which were not included into the functions of the section 7 of the Act of the Fund. Not commented Financial aid should not be granted for the purposes which were not included into the scope of the functions of the Act of the Fund.
- (d) Although provisions had not been made in the Act of the Fund to grant aid to patients in personal level, financial aid of Rs.11,029,810 had been granted to 12 patients during the year under review. Not commented - do -

### 3.4 Underutilization of Funds

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The following observations are made

Audit Observation	Comments of the Management	Recommendation
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(a) Donations of Rs.28,527,514 received for 21 specific activities had not been utilized for the said objective activities within a time range of 2 to 30 years.	Not commented	Actions should be taken to utilize the funds to fulfil the specific function of which it had been received.
(b) Funds which could be utilized from the general fund of the National Health development fund during each year of the period from the year 2014 to the year 2018 were Rs.261,124,443, Rs.295,194,406 Rs.358,057,285 Rs.387,348,323 and Rs.425,345,893 respectively. However 79 per cent, 82 per cent 77 per cent,72 per cent and 77 per cent had been saved without utilizing.	Not commented	Actions should be taken to fulfil the main objective of the Fund which spending funds for healthcare activities of Sri Lanka.

### 3.5 Deficiencies in Contract Administration

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The following observations are made

Audit Observation	Comments of the Management	Recommendation
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(a) Although 8 years had lapsed for the construction which had been ceased the activities of the ward complex of the Meegahakiwula Hospital due to the fact that constructions not being completed appropriately and on due date, actions had not been taken to recover the performance bond of Rs.1,372,346.	Not commented	A proper investigation should be carried out in this regard and the funds should be recovered from the responsible parties.
(b) A sum of Rs.721,962 had been paid in the year 2017 to the Central Engineering Consultancy Bureau for obtaining consultancy services to establish an eye bank in the Kurunegala	Not commented	Be responsible and actions should be taken according to a plan as to be able to avoid idle

	<p>Teaching Hospital which was a donation of Asia Cornea Foundation. Although contract of constructions of the first stage had been awarded at Rs.14,162,162 in the year 2018, constructions could not be commenced because the land could not be obtained due to the protest of the medical officers of the Kurunegala Hospital. The consultancy fees of Rs.721,962 had become an idle expenditure due to the land not being settled before obtaining consultancy services.</p>		<p>expenses.</p>
<p>(c)</p>	<p>Although every possible time, procurement should be fulfilled through open bidding process, a sum of Rs.4,308,602 had been incurred for lab testing get done by a private hospital which had been selected during the year under review without calling competitive bids.</p>	<p>Not commented</p>	<p>Actions should be taken as per the Government Procurement Guideline.</p>