

National Health Development Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Health Development Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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 presented in Parliament appear in this report.

In my opinion, except for the matters described in the basis for Qualified Opinion section of my report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, 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 determines 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 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 the 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, 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

1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Out of the sum of Rs.16,961,796 donated to the Fund in the year 2019 by the Updating the Primary Health Performance Initiative (PHCPI) Project, a sum of Rs.5,180,025 returned to the said project during the year under review had been indicated in the financial statements as an expenditure instead of indicating it by deducting from income from donations.	It is accepted that the sum returned has been indicated as an expenditure relating to the year 2020 by mistake and that it is an accounting error.	Financial statements of the year 2021 should be prepared by rectifying the said error.
(b) Even though it had been disclosed in the financial statements that income and expenditure of the Fund are brought to account on accrued basis, contrary to that, income and expenditure relating to the National Eye Bank had been disclosed on cash basis. Even though, only investments and balances of bank accounts relating to the National Eye Bank had been disclosed in the financial statements, fixed assets, other current assets and current liabilities relating to the National Eye Bank had not been disclosed in the financial statements. Moreover, information on those assets and liabilities as well had not been made available to Audit.	That the National Eye Bank is functioning as a project and not as a separate institution belonging to the National Health Development Fund, relevant income and expenditure have been indicated in the financial statements of the Fund similar to other short term projects, those income and expenditure have been accounted on cash basis, investments or fixed assets of the relevant year for the Eye Bank have not been made or purchased respectively, fixed assets are the assets donated by the Main institution, a decision with	Income and expenditure of the National Health Development Fund as well as the transactions of the National Eye Bank should be brought to account on accrued basis. Moreover, action should be taken to include and disclose all information on assets and liabilities owned by the National Eye Bank in the financial statements of the National Health Development Fund.

regard to the going concern of the National Eye Bank has not been taken so far and that action is being taken to vest in the Eye Hospital or to maintain as a separate institution. Until the National Eye Bank is established as a legal unit, action should be taken to account all transactions thereof and to present those data and information to Audit.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

 The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 381	A savings account had been opened in the Bank of Ceylon in the year 2016 without approval of the Treasury and the balance of the account as at 31 December 2020 amounted to Rs.16,911,230.	That the Financial Regulation 381 is only applicable to official bank accounts of Ministries and Departments, the National Health Development Fund is a Statutory Board, transactions of the Fund are carried out through the official account of the Bank of Ceylon, the savings account has been opened in the year 2016 with a view to obtaining interest income on instructions and approval of the Governing Board of the Fund and with a view to managing the balance of the Current Account, the approval of the Secretary of Health has been received and that in consultation with the Director General of Public Finance in that connection, it was verbally informed approval of the Treasury is not necessary therefor.	Action should be taken in terms of Financial Regulations.

- (ii) Financial Regulation 571 Action in terms of Financial Regulations had not been taken regarding the unsettled retention moneys of Rs.6,910,491 relating to 19 contracts of which works were completed, brought forward over a period of 04 years. Action is being taken to credit unsettled retention moneys to the income of the Fund. Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs.80,133,424 as compared with the corresponding surplus of Rs.90,462,688 of the preceding year, thus observing a deterioration of Rs.10,329,264 in the financial result. The decrease in the interest income, transfers made from other Government institutions and donations and other income by Rs.211,250,260 of the year under review, had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) In terms of the Memorandum of Understanding, entered into in the year 2010 with the Asia Cornea Foundation in Singapore for the establishment of the National Eye Bank of Sri Lanka and the Cabinet approval received on 29 August 2013 for the establishment of the National Eye Bank of Sri Lanka as a Trust, action had not been taken even by 30 September 2021 to establish the National Eye Bank of Sri Lanka as a separate unit with an institutional structure by an Act and to prepare separate financial statements for the purpose of reporting transactions.	That the Act for the National Eye Bank of Sri Lanka has already been drafted to be forwarded to the Cabinet by now, action is being taken in this connection by the Legal Unit of the Ministry, and action will be taken to prepare separate financial statements after the establishment of the National Eye Bank as a Legal Unit by passing the Act.	Establishment of the National Eye Bank of Sri Lanka as a legal unit with a separate institutional structure should be expedited.
(b) The Cabinet approval had been received to carry out activities of the Sri Lanka National Eye Bank continuously as a project until it will be established as a unit,	According to the Cabinet Decision No. CP/13/1172/509/052 dated 06 September 2013 of the	The Cabinet should be made aware of that according to Management Services

to recruit the staff and pay salaries to them according to Management Services Circular No.33 of 05 April 2007. However, action could not be taken as per the Cabinet Decision, as Conditions required for considering the National Eye Bank of Sri Lanka as a project, were not fulfilled in terms of paragraph 1.1 of Management Services Circular No.33.

Secretary to the Cabinet, approval has been received to carry out activities of the National Eye Bank of Sri Lanka continuously as a project until the Statutes are imposed by a Parliamentary Act to establish the National Eye Bank of Sri Lanka.

Circular No.33 of 05 April 2007, the National Eye Bank cannot be considered as a project and the staff as well cannot be recruited accordingly. Moreover, action should be taken by looking into alternative measures to be taken thereon.

(c) In terms of Article 149(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka, Consolidated Fund shall be paid the produce of all taxes, imposts, rates and duties and all other revenues and receipts of the Republic not allocated to specific purposes. However, a sum of Rs.133,219,064 earned by the National Blood Transfusion Service from sale of blood plasma during the period from August 2009 to the year 2018 had been credited to the National Health Development Fund instead of crediting to the Consolidated Fund. A sum of Rs.120,047,670 of the said amount had been returned to the National Blood Transfusion Service in August 2019 to be credited to the Consolidated Fund. Nevertheless, a sum of Rs.13,171,394 earned from sale of blood plasma had been further retained in the Fund without crediting to the Consolidated Fund.

Only a sum of Rs.120,047,670 earned by the National Blood Transfusion Service from sale of blood plasma during the period from August 2009 to the year 2018 had been credited to the Consolidated Fund as per the report of the Auditor General issued in the year 2018 and action will be taken to pay the remaining sum of Rs.13,171,394.

Action should be taken to return monies received from sale of blood plasma to be credited to the Consolidated Fund.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation

Comments of the Management

Recommendation

(a) Recovery of debtors balances totalling Rs.1,382,346 receivable during a period from 4 to 8 years had failed even by the date of this report.

Letters have been forwarded to relevant parties for recovery of the value of Rs.1,372,346 relating to the performance

Action should be taken to recover the said sum which could not be recovered from a long

- security issued by Ceylinco Insurance PLC which could have been converted to cash due to failure in completing constructions properly.
- period, or to recover from parties who are responsible for non-recovery if any, or to write off from books.
- (b) According to information made available to Audit, action had not been taken to return to the donor institutions or to transfer to the General Fund, a sum of Rs.2.3 million relating to 13 projects of which project activities were completed.
- Action is being taken to credit donations remaining relating to projects of which activities were completed, to the General Fund on the approval of the Board of Directors.
- Action should be taken in terms of Memoranda of Understanding or as agreed relating to projects. If not, the remaining monies should be credited to the General Fund of the National Health Development Fund.
- (c) A sum of Rs.15 million had been granted to the Ayurvedic Drugs Corporation on 26 May 2015 for the project on introducing and publicizing 10 new Ayurvedic products to the open market and the Corporation had agreed to credit 10 per cent of the profit of each production unit monthly for the said purpose, as a policy. Only a sum of Rs.1,260,427 had been credited to the Fund by the Corporation during the period from June 2015 up to 31 December 2019 and the recovery of any monies whatsoever from the Corporation relating to the year under review, had failed.
- The said sum of Rs.15 million had been granted in the year 2015 for increasing the production capacity by introducing 10 new Ayurvedic products to the open market in accordance with the National Health Development Fund Act for the development and promotion of institutions providing health-care services in Sri Lanka and a sum of Rs.1,260,427.28 had been paid by the Corporation from the sales income to the National Health Development Fund during the period from the year 2015 to the year 2019 and reminders had been sent to pay monies relating to the year 2020.
- Action should be taken to recover monies receivable to the Fund as per the agreement with the Ayurvedic Drugs Corporation.
- (d) The Health Development Lottery had been introduced in September 1998 with a view to raising necessary funds for purchase of essential equipment for Government hospitals and for repairs of those hospitals. The purpose achieved from the funds from each draw should be identified, publicized and executed before every draw takes place. However,
- Attention has been paid towards taking action thereon in the ensuing years.
- The said funds should be utilized for achieving intended purposes through the Health Development Lottery.

action had not been taken accordingly. Out of the lottery income amounting to Rs.399,767,068 received during the period from the year 2014 up to 31 December 2020, only sums of Rs.20,578,392 and Rs.86,344,001 had been spent respectively for purposes such as purchase of equipment for hospitals and repairs of hospitals and it represented only 21 per cent of the total lottery income.

3.3 Underutilization of Funds

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Donations of Rs.8.09 million received for 11 specific purposes to the Fund from the year 1996 up to the year 2018 had not been utilized during a period ranging from 3 to 17 years for achieving the said purposes.	Action has been taken to brief the relevant institutions to achieve intended purposes by utilizing these donations.	Action should be taken to achieve intended purposes by utilizing monies received to the Fund as donations.
(b) No Annual Action Plans had been prepared so as to achieve intended purposes of the Fund and no programmes as well had been prepared on the manner in which general funds of the Fund should be utilized for promotion of health-care services in Sri Lanka. The credit balance of the General Fund as at 01 January 2020 was Rs.411,069,837 and a sum of Rs.144,191,754 had been credited to the Fund during the year under review. As such, the funds which could have been utilized was Rs.555,261,591. However, only a sum of Rs.49,280,114 of that had been utilized during the year under review. Accordingly, the utilization of general funds belonging to the Fund had been at a level as low as 9 per cent.	Monies received to the National Health Development Fund are not utilized in the year itself of receipt, provision is made by the national budget for the development of all institutions providing health-care services in Sri Lanka and provision is made by the Fund for urgent requirements for which provision is not made by the national budget.	Plans and programmes should be prepared and executed so as to achieve intended purposes of the Fund.