

## **National Health Development Fund -2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Health Development Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, and of 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**

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I expressed qualified opinion 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**

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

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

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

#### **1.4 Auditor's Responsibility for the Audit of the 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 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 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) Even though income, expenditure, current assets and current liabilities of the National Eye Bank had been included in the financial statements of the Fund, fixed assets of the National Eye Bank had not been disclosed in those financial statements and information thereon had not been made available to Audit.	This error will be rectified in the accounts of the Fund prepared for the year 2022.	Action should be taken to disclose assets of the National Eye Bank in the financial statements of the Fund and to make relevant data and information available to Audit.
(b) Prior advances of Rs.1,980,951 and Rs.4,684,458 recovered relating to several preceding years and the year under review respectively for cornea tissues supplied to foreign countries by the National Eye Bank had not been settled even by 31 December 2021. As such, those advances should be identified as current liabilities. However, instead of identifying as an income of each year, the surplus of the year under review and the accumulated surplus as at that date had been overstated by Rs. 4,684,458 and Rs.1,980,951 respectively	-do-	Accurate financial statements should be prepared and submitted.

while the current liabilities had been understated by Rs.6,665,409 as at that date in the financial statements.

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| (c) | A sum of Rs.897,082 receivable by 31 December 2021 for cornea tissues supplied in the preceding years to foreign countries by the National Eye Bank, had not been brought to account. As such, the accumulated surplus and current assets as at that date had been understated by a similar value.  | -do-   | -do-  |
| (d) | A sum of Rs.2,928,551 payable to the Eye Hospital for Cornea Storage Media obtained by the National Eye Bank during the year under review had not been brought to account and as such, the surplus of the year under review and the current liabilities as at 31 December 2021 had been overstated and understated respectively by a similar value. | -do-   | -do-  |
| (e) | Accrued expenses as at 31 December 2021 amounting to Rs.663,000 had not been brought to account. As such, the surplus of the year under review and the current liabilities as at 31 December 2021 are overstated and understated respectively in a similar value.   | This error will be rectified in the accounts of the Fund prepared for the year 2022. | Accurate financial statements should be prepared and submitted. |

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

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The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Section 7 of the National Health Development Fund Act, No.13 of 1981	Provisions had not been made in the Fund Act for donations to patients on personal basis. However, a financial aid of Rs.2,700,000 had been donated to a certain patient in the year under review.	In terms of Section 7 of the National Health Development Fund Act, No.13 of 1981, according to powers vested in the Minister, the sum of Rs.2,700,000 has been approved based on humanitarian reasons and in a manner not to set as a	Financial aid should be donated only for activities included in the scope of functions of the Fund Act.

Moreover, a sum of Rs.1,000,000 had been donated to an association for activities not included in the scope of functions of the Act.

precedent, to apply the moneys belonging to the Fund for the advancement of the education or knowledge of persons engaged in or associated with the health-care services of Sri Lanka in terms of the said Section and accordingly, the sum of Rs.1,000,000 donated to the Sri Lanka Medical Association had been paid subject to the approval dated 21 September 2021 of the Board of Directors and these payments have been made in compliance with laws, rules and provisions of the Act.

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| (i) Financial Regulation 571 (2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | In the case of lapsed deposits, inquiries should be made, before their transfer to Revenue, so as to prevent as far as possible, subsequent applications for refunds. However, the Fund had credited a sum of Rs.1,429,775 to the Revenue without making such inquiries. | In terms of Financial Regulation 570, deposits should be considered "lapsed" for 2 years from date of completion of Project and action has been taken to credit these funds to Revenue as the case may be, after obtaining approval of the Board of Directors on 30 December 2021. | Action should be taken in terms of Financial Regulations. |
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**2. Financial Review**

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**2.1 Financial Results**

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The operating result of the year under review amounted to a surplus of Rs.188,434,938 and the corresponding surplus in the preceding year amounted to Rs.80,133,424. Therefore an improvement amounting to Rs.108,301,514 of the financial result was observed. The reasons for the improvement are the increase in donations and other income by Rs.126,447,755 in the year under review.

### 3. Operating Review

#### 3.1 Management Inefficiencies

The following observations are made.

Audit observation	Comments of the Management	Recommendation
(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 08 April 2022 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 Trust, 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.	According to the Cabinet Decision No. CP/13/1172/509/052 dated 06 September 2013 of the 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.	The Cabinet should be made aware of the fact that according to Management Services 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.

### 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) Recovery of debtors balances totaling Rs.1,382,346 receivable during a period from 05 to 09 years had failed even by the date of this report.	Letters have been forwarded to relevant parties for recovery of the said monies.	Action should be taken to recover the said sum which could not be recovered from a long period, or to recover from parties who are responsible for non-recovery if any, or to write off from books properly.
(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.1,392,063 relating to 07 projects of which project activities were completed.	Action will be taken to credit donations 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 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 new production unit monthly for the said purpose, as a policy. However, only a sum of Rs.1,260,427 had been credited to the Fund during the period from June 2015 up to 31 December 2019 and the recovery of any monies whatsoever relating to the years 2020 and 2021, had failed.	A sum of Rs.1,260,427 has been credited by the Ayurvedic Corporation from the sales income to the Fund during the period from the year 2015 to the year 2019 and reminders had been sent to pay monies relating to the years 2020 and 2021.	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, action had not been taken accordingly. Moreover, the Additional Director General of Treasury Operations had requested on 06 March 2020 to submit a Work Plan including functions expected to be implemented of the Fund for issuing money from the General Treasury for the years 2020 and 2021. However, such a Work Plan had not been prepared and submitted even by the date of this report. No proper procedure was available with the Fund on the functions to be performed from the lottery income. As such, a sum of Rs.113,551,992 receivable from the General Treasury by 31 December 2021 could not be released.
- Attention has been paid towards taking action thereon in the ensuing years and action has been taken to prepare an Annual Action Plan for the year 2022.
- Action should be taken to prepare a proper Work Plan for achievement of expected objectives of the Health Development Lottery and accordingly for effective utilization of those funds.
- (e) A sum of Rs.428,491,540 had been received as lottery income during the period from the year 2014 to 31 December 2021 and of that, only a sum totalling Rs.177,327,567 comprising Rs.20,578,392 and Rs.156,749,175 had been incurred respectively for intended purposes such as purchase of hospital equipment and repairs of hospitals. The utilization of lottery income had been as low as 41 per cent.
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- The said funds should be utilized for achieving intended purposes through the Health Development Lottery.



### 3.3 Underutilization of Funds

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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) Donations of Rs.5,770,668 received to the Fund during the period from the year 1997 to the year 2013 for 10 specific purposes had not been utilized for performing the said intended functions during a period ranging from 03 to 18 years.	The relevant institutions have been briefed to perform the intended functions by utilizing these donations and these funds cannot be utilized for other purposes until the relevant institutions make requests.	Action should be taken for effective utilization of funds received to the Fund as donations for performing intended functions.
(b) Annual Action Plans had not been prepared so as to enable achievement of expected objectives of the Fund while Work Plans had not been prepared on the manner of utilizing general funds of the Fund for improving the health services in Sri Lanka. However, the total income of the General Fund was Rs.599,747,320 by 31 December 2021 and the sum spent from the General Fund during the year under review was only Rs.33,458,630. As such, utilization of monies in the Fund had been as low as 6 per cent.	Attention has been drawn for taking action in this connection in ensuing years and action has been taken to prepare an Annual Action Plan for the year 2022.	Plans and programmes should be prepared and implemented so as to achieve expected objectives of the Fund.