

National Health Development Fund- 2011

1. Financial Statements

1.1 Qualified Opinion

In my Opinion except for the effects of the matters described in paragraph 1.2 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 2011 and its financial performance and its cash flows for the year then ended in accordance with Generally accepted accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting deficiencies

The following Observations are made.

- (a) Interest income on Treasury bills relating to the year under review amounted to Rs.11,698,075 but it was stated in the financial statement as Rs.11,665,471 thus understating the interest income and the surplus by Rs. 32,604.
- (b) Interest income on short term Treasury Bills relating to the year under review amounted to Rs.2,191,160 but it was shown in the financial statements as Rs.2,258,640 thus overstating the interest income and the surplus by Rs.67,480.
- (c) A sum of Rs.103,571 given to the Bio medicine Engineering Division by the Fund to supply equipment to the National Hospital had not been reimbursed even by 31 December of the year under review. Instead, it had been charged as an expenditure of the Fund and as such the surplus of the year under review and the current assets had been understated by that amount.
- (d) An advance of Rs.300,000 had been given for the Infant and Young Children's Nutrition Training programme in the year under review for Health Field Officers but the expenditure relating to the year under review had been only Rs.169,762. However the total amount had been brought to accounts as expenditure. As a result the surplus of the year and the current assets had been understated by Rs.130,238.

- (e) Although the surplus for the year under review had been disclosed as Rs.79,363,105, a prior adjustment of Rs.6,157,268 had also included therein. As a result, the year's surplus had been overstated and action had not been taken to adjust the prior year adjustment to the accumulated fund.
- (f) An expense of Rs.94,120 had been incurred as Website Fund in the Fund but it had not been shown under Health Development Project expresses.
- (g) Even though the year's expenditure for the development of Ihala Beligalla Rural Hospital had been shown in the financial statements as Rs.17,135,144, the annual expenditure thereon amounted to Rs.16,710,639. As such, the expenditure and the surplus for the year had been overstated and understated respectively, by Rs. 424,504.

1.2.2 **Unexplained Differences**

According to the particulars of debits and credits made to the general fund during the year 2011 presented the increase in the Fund should have been Rs.6,526,001 but according to the financial statements presented it was a decrease of Rs.19,919,082.

1.2.3 **Account Receivable**

A performance bond valued at Rs.1,372,346 receivable from the Ceylinco Insurance Company relating to a contract cancelled due to non completion of construction works as specified had remained unrecovered for a period of 4 years. Action had not been taken recover same even during the year under review.

1.2.4 **Non- compliance with Laws, Rules, Regulation and Management Decisions**

In terms of Public Finance Circular No. PF 423 dated 22 December 2006, the Annual Budget of the Fund should be submitted to the Treasury before 30 September of the previous year. However , the budget had not been prepared.

1.2.5 **Transactions not Supported by Adequate Authority**

The following observations are made in respect of the payment of salaries to the staff of the Sir Lanka National Eye Bank.

- (a) The management fee of Rs.15,000 and Rs.9,500 had been paid monthly to the Manager and Junior Manager of the Eye Bank respectively during the year under review, there was no formal approval therefore.
- (b) An annual uniform allowance of Rs.12,000 each had been paid to the Junior Manager, and the Management Assistant of the Eye Bank who engage in office work without any approval.
- (c) The annual uniform allowance, along with the salaries had been paid to the officers who had been deployed to the Fund from the Eye Hospital and they had obtained their uniform allowances from the National Eye Bank as well. Accordingly Rs. 20,000 from the Eye Bank and Rs.36,000 from the Eye Hospital had been obtained by 4 officers along with their salaries.

2. **Financial Review**

2.1 **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.79,363,106 as against the deficit of Rs.108,583,244 for the preceding year, thus showing an improvement of Rs.187,946,350 in the financial results of the year. The following observations are made in this regard.

- (a) Lottery income and private donations had increased by Rs.5,112,220 and Rs.94,896,935 respectively as compared with the preceding year.
- (b) Health development expenditure had decreased by Rs.83,718,091 as compared with the preceding year.
- (c) Increase in income as compared with the decrease in expenditure had been the reason for the improvement of the financial results.

3. **Operating Review**

3.1 **Performance**

The following observations are made.

- (a) Financial and physical performance of conducting clinics for kidney patients programme is given below.

	<u>Physical Performance</u>			<u>Financial Performance</u>		
	Estimated No.s -----	Actual No.s -----	%	Estimated amount -----	Actual amount -----	%
				Rs.	Rs.	
Conducting Clinics for Kidney Patients	130	72	55.3	1,900,000	839,861	44.2

Observations in respect of performance are given below.

- i. Even though the expected number of patients annually had been stated, number of patients who had been examined had not been stated in the performance reports monthly submitted. As such, the performance of patient's participation could not be evaluated.
 - ii. Progress review reports in respect of ensuring whether the funds allocated had been utilised for the relevant purpose were not made available.
- (b) Three hundred and forty three eye corneas had been collected by the Sri Lanka Eye Bank operated under the provision of funds made by the Fund and 299 corneas had been issued to patients for transplantation. 9 corneas had been exported. Accordingly the average monthly performance of collection of corneas had been at a lower value of 29.
- (c) A sum of Rs. 25,031,559 received during the period of 3 to 24 years for 23 miscellaneous purposes had been 100 per cent idle. Similarly a sum of

Rs.12,655,353 received for Tsunami disaster had been idle for the period of 7 years and the non – utilization percentage was 82%.

3.2 **Management Inefficiencies**

A sum of Rs.2,644,568 had been granted by the UNICEF for carrying out a survey on the nutrition position of the people living in the Northern Province and a supplementary estimate of Rs.1,175,872 had also been approved in addition to that. 63% or Rs. 750,000 of the supplementary estimate had been utilized for the provision of residential facilities.

3.3 **Operating Inefficiencies**

The following observations are made.

- (a) A sum of Rs.200,000 each had been provided to Anuradhapura, Batticalow, Kalmune Districts for providing relief to the people affected by flood. According to the activity programme presented to the World Health Organization, expenditure on food for relief employees could be incurred only 16.7% but the expenditure incurred by those districts thereon had been 92.4%, 86.1% and 61.5% respectively.
- (b) Particulars such as what functions had been carried out by participating relief employees. Who had participated and performance and progress reports thereon were not made available.

3.4 **Uneconomic Transactions**

The following observations are made in this regard.

- (a) A sum of Rs. 531,656 had been paid to a hotel at Habarana for providing food and lodging to 68 officers who participated in a flood relief progress review meeting held in that Hotel. However only 45 officers had been participated in that meeting and as such the payment of Rs.179,825 made in respect of 23 Officers had become a fruitless expenditure.
- (b) It was agreed to obtain a van on a monthly rental basis from a private party for the transport facilities of dengue prevention project and the monthly charge was Rs.85,000, subject to a minimum of 2,500 km. However, any month during the

period from December 2011 to April 2012 this vehicle had not been run for the minimum Kilometerage.

According to the monthly rent , the average charge per 01 km. amounted to Rs.34 but in the examination of Km. run during the above 5 months observed that the expenditure per 01 km ranged from Rs. 48 to Rs.107.

3.5 **Utilization of Funds**

The following observations are made.

- (a) The opening balance of advances given to the sanitary toilet project in the Badulla District as at the beginning of the year 2011 amounted to Rs.1,377,613 and the settlement of advances had been done in July 2011. A sum of Rs.779,014 or 56% of the advance had not been utilized but it had been settled after the lapse of 7 months of the year under review. Further, an advance should be settled immediately after the completion of the purpose for which it was given in terms of F.R. 371(2). But it had not been so done.
- (b) The month of June had been named as the “National Nutritious Month” and a sum of Rs.340,000 had been given by the World Food Programme for printing of 4000 copies of hand books of nutrition. However those books had been received during August and as such there was no evidence to ensure whether these books had been effectively distributed within the nutritious month.

3.6 **Idle and Underutilized Assets**

The following observations are made.

- (a) According to the bank current account in a state bank at Maharagama, there was a balance over Rs 25 million as at 01 March of the year under review and it was remained idle up to 31 march. There after it was invested in a short term Treasury Bills (REPO) on that date. Similarly over Rs25 million had remained idle in April and July for period ranging 15 to 8 days. As such, the opportunity of earning an interest income by investing this excess money in short term Treasury bills had deprived of.

- (b) The balance of Rs.2,375,257 in a current account of a state bank had been idle since April 2010. Action had not been taken to invest this money in a short term investment.

4. **System and control**

Special attention is needed in respect of the following areas of system and control weaknesses observed in audit by the management.

- (a) Maintenance of advance registers
- (b) Payment of allowances for trainings programs
- (c) Maintenance of separate accounts for each project

Income and expenditure statement

 According to the financial statement presented the income and expenditure of the fund as compared with the preceding year is given below.

	<u>Year ended 31 December</u>			
	<u>2011</u>		<u>2010</u>	
	Rs.	Rs.	Rs.	Rs.
<u>Income</u>				
Suwasetha National Lottery	39,228,040		34,115,820	
income				
Donations	130,926,696		36,029,761	
Investment interest	14,192,687		18,195,761	
Other income	1,083,848		272,150	
	-----	185,431,271	-----	88,613,492
<u>Expenditure</u>				
Administrative expenses	1,190,256		997,702	
Finance and other expenses	39,014		758,300	
Health Development project	110,996,163		194,714,254	
expenses	-----	112,225,433	-----	196,470,256
		-----		-----
		73,205,838		(107,856,764)
Prior year adjustments		6,157,268		(726,480)
		-----		-----
		79,363,106		(108,583,244)
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Investment statement**Fixed deposit**

No. of the certificate	Date of investment	Period of investment	Balance as at 01 Jan. 2011	Investment during the year 2011	With draws during the year	Balance as at 31 December 2011
-----	-----	-----	-----	-----	-----	-----
			Rs.	Rs.	Rs.	Rs.
329645	2011.12.21	year 1	-	23,000,000	-	23,000,000
329646	2011.12.21	Months 3	-	63,000,000	-	63,000,000
				-----		-----
				86,000,000		86,000,000
				=====		=====

Treasury Bills

No. of the certificate	Date of investment	Period of investment	Balance as at 01 Jan 2011	Investment during the year 2011	With draws during the year	Balance as at 31 December 2011
-----	-----	-----	-----	-----	-----	-----
		Dates	Rs.	Rs.	Rs.	Rs.
Bank of Ceylon						
314	2011.09.02	364	12,056,396	-	-	12,129,573
314	2011.10.21	182	40,310,835	-	-	40,291,356
314	2011.03.11	364	12,306,003	-	-	13,434,486
314	2011.11.25	91	23,705,160	-	-	23,673,177
314	2010.10.01	182	6,290,830	-	6,290,830	-
314	2011.12.09	182	4,828,585	-	-	4,800,770
314	2011.11.25	182	7,722,008	-	-	7,703,416
314	2011.09.02	182	6,029,375	-	-	6,048,312
MIOB022269	2010.12.17	19	25,000,000	-	25,000,000	-
MIIB024103	2011.12.28	6	-	14,500,000	-	14,500,000
MIIB024104	2011.12.28	6	-	10,000,000	-	10,000,000
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			138,249,192	24,500,000	31,290,830	132,581,090
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National Saving Bank

2010100226	2011.10.21	91	5,306,286	-	-	5,679,909
2010100272	2011.01.28	91	1,000,000	-	1,000,000	-
2010060221	2011.06.10	364	16,751,838	-	-	18,276,260
2010100273	2011.01.28	91	5,000,000	-	5,000,000	-
2010060157	2011.06.10	364	3,666,360	-	-	3,729,604
2010100064	2011.10.07	91	15,119,555	-	-	16,184,124
201010021	2011.10.07	91	1,967,536	-	-	1,965,360
2010100310	2011.04.29	04	17,644,344	-	17,644,344	-
			-----	-	-----	-----
			66,455,919		23,644,344	45,835,257
			=====		=====	=====
			204,705,111	24,500,000	54,935,174	178,416,347
			=====	=====	=====	=====