

## **National Health Development Fund - 2014**

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The audit of financial statements of the National Health Development Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10(2) of the National Health Development Fund Act, No. 13 of 1981. My 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 appears in the following paragraphs and the income and expenditure statement and the statement of investment of money owned by the Fund are forwarded as Annexure 01 and Annexure 02 respectively.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 for the 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 internal control of the Fund. 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.

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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2014 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**

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#### **2.2.1 Accounting Deficiencies**

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The mobilization advance amounting to Rs.571,200 granted for the contract of construction of the canteen of the National Eye Hospital, had been brought to account as an expenditure instead of accounting as an advance. The retention money amounting to Rs.79,154 which had been deducted from the first part payment during the year under review, had not been brought to account.

### **2.3 Accounts Receivable**

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Action had not been taken for over a period exceeding 3 years to recover the balance of Rs.10,000 out of the amount granted to the Regional Director of Health Services for the construction project in Hambanthota.

### **2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions**

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A sum totalling Rs.120,370 had been paid to 7 officers of the National Eye Bank as extra services allowances in 25 instances of the year under review exceeding the monthly salary limit without an approval of the Secretary to the Ministry contrary to the sub paragraph xiv of Section 04 of the General Circular No. 02/19/2009 dated 27 March 2009 of the Ministry of Health.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operation of the Fund for the year under review had resulted in a surplus of Rs.49,171,867 as against the deficit of Rs.46,900,783 for the preceding year, thus indicating an improvement of Rs.96,072,650 in the financial result in the year under review as compared with the preceding year. A decrease in expenses of health development projects by Rs.115,189,472 had mainly attributed to that improvement.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made.

- (a) A donation amounting to Rs.3,044,000 had been made by a foreign government for providing spectacles for 3000 visually handicapped students in the Kurunegala District and that the purpose should have been completed before 30 September 2014 in terms of the Memorandum of Understanding between relevant parties. Even though a sum of Rs.2,289,402 had been granted in the year under review to the Project of Vision 2020 of the Ministry which was responsible for the implementation of the programme, activities on the identification of suitable students had not been completed. As such, spectacles had been provided only for 891 students by spending a sum of Rs.1,103,763 by the end of the year under review. The physical performance thereof was only 30 per cent.
- (b) The World Health Organization had agreed to grant a sum of Rs.605,000 to hold 5 workshops on elimination of violence against women, out of which, a sum of Rs.484,000 had been granted to the National Institute of Mental Health on 13 September 2013. Even though the relevant workshops should have been completed in October and November 2013, only 2 workshops had been held by spending a sum of Rs.168,110 by the end of the year under review.
- (c) A foreign government had donated a sum of Rs.2,197,150 in the years 2013 and 2014 to carry out a survey on Polio Antibodies. Even though the survey should be commenced in April 2013 and completed in December 2014 according to the project proposal, action had not been taken to complete the project and publish the final research report even by 15 September 2015.
- (d) A sum of Rs.10,387,382 had been donated during the preceding year and the year under review by a foreign government for carrying out a research of 4 years in the name of Black Carbon Study Project. Project activities had been commenced in the year 2013 and selection of 475 targeted mothers and collecting information by submitting a questionnaire for them for research activities had been scheduled to be completed in February 2014. However, the selected number of mothers had been 391 even by 31 December 2014 and the number of mothers from whom the information had been collected by a questionnaire had been 341.

##### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) A sum of Rs.2,368,622 had been paid as overtime and holiday pay to Nursing Staff and Assistants of the National Eye Bank in the year under review without confirming their arrival and departure.
- (b) The savings of the amount spent from the General Fund in each year during the year under review and 3 preceding years were 201 per cent, 348 per cent and 164 per cent and

369 per cent respectively and the balance of the General Fund as at 31 December 2014 amounted to Rs.205 million. Those amounts had been made in various investments without utilizing for development of the Health Sector in terms of Section 7 of the Fund Act.

- (c) A sum of Rs.384,560 received during the year under review from the World Health Organization for mental health training, had been returned to that Organization in the year 2015 without being utilized.

#### **4.3 Operating Inefficiencies**

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After increasing the price of a Jathika Sampatha Lottery ticket up to Rs.20 or improving the sale of those tickets, it had been decided in the year 2008 to decrease the contribution made to the Fund from the lottery from 15 per cent to 10 per cent in agreement with that it would be considered to increase the contribution made to the Fund again. The sale of lottery tickets had improved by 10.6 per cent and 16.9 per cent in the years 2013 and 2014 respectively as compared with the year 2007 and the price of a ticket had been increased up to Rs.20 in September 2008. However, the Fund had not taken action to increase the contribution made to the Fund again.

#### **4.4 Transactions of Contentious Nature**

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Hundred and fifty Dengue 1gm Elisa 96 Test Kits had been purchased by spending Rs.5,688,900 in the years 2012 and 2013, out of which, 60 and 90 units had a less life time such as 05 and 10 months respectively. As such, 35 units costing Rs.1,327,410 had expired. Further, 48 units costing Rs.1,820,448 had been made use of after the expiry.

Ninety six tests can be carried out from a single test kit and as such, the number of test kits required for 5201 tests carried out by 31 December 2014, was only 55. However, it had been reported that 102 test kits had been used during that period and as such, non-occurrence of an irregularity in respect of 47 test kits valued at Rs.1,782,522 cannot be ruled out in audit.

#### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) Donations totalling Rs.5,688,380 received for 05 constructions, maintenance and other activities had not been utilized for relevant purposes and those amounts had remained idle for over a period ranging from 6 to 11 years.
- (b) Despite having a balance amounting to Rs.1,761,143 as at 31 December of the year under review in a Fund established in the year 2004, in view of refurbishment and maintenance of the very old buildings of the De Soysa Maternity Home, only minor activities such as painting few buildings and fixing curtains had been carried out. Attention had not been paid on fulfilling the objectives of the Fund and developing the Fund.
- (c) The public donations amounting to Rs.947,101 had been collected and credited to the Health Development Fund during the period from the year 2005 to year 2008 to construct a Cardiology Clinic for the Lady Ridgeway Children's Hospital, Colombo and action had

not been taken to collect any funds by the relevant parties since the year 2008 up to 31 December of the year under review.

- (d) A sum of Rs.10,000,000 had been donated to the Fund by the State Pharmaceuticals Corporation of Sri Lanka in the year 2008 to obtain medical equipment required for soldiers who are treated at the Sri Jayewardenapura General Hospital and a sum of Rs.20,000,000 in the year 2009 to improve the official quarters of the Medical Officers and take action in respect of sanitary conditions and water problems of the general public. A sum totalling Rs.24,507,112 had remained idle by 31 December of the year under review without utilizing for the relevant purposes.
- (e) A sum of Rs.101,500 received in the year 2011 for the purchase of a scanner machine for the Moneragala Hospital, had remained idle for over a period exceeding 3 years without spending for the relevant purpose.
- (f) The purpose of the construction of 5 primary health service centres in the Hambanthota District had been assigned to the Sri Lanka Navy in the year 2013 and a sum of Rs.75,000,000 had been paid in cash by 21 May 2014. Construction works had been completed at a cost of Rs.50,297,406 and as such, action had not been taken to recover the balance of Rs.24,702,594 to the Fund.

#### **4.6 Uneconomic Transactions**

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Even though only a stock adequate for maximum 02 months should be maintained in the stores in accordance with provisions of the Drugs Management Manual, it was observed in audit test check carried out in respect of purchases for Dengue laboratories that overstock of certain materials valued at Rs.4,052,680 had existed for a period ranging from 07 to 150 months.

#### **4.7 Identified Losses**

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The following observations are made.

- (a) Twenty five vials of Thermo Read TM Tag DNA Polymerase 1000 g type had been purchased by spending Rs.242,500 in March 2013 without considering the required quantity and the life time thereof. Out of that, only one unit had been used and 15 units and 09 units costing Rs.232,800 had expired in October 2013 and March 2014 respectively.
- (b) Ten Viral Extraction Kits purchased by spending Rs.870,000 in March 2013 had expired in September 2013, out of which, 3 sets had been used after being expired. Five expired units costing Rs.435,000 had existed in the stores.
- (c) Materials costing Rs.15,037 purchased for the purpose of collection of eye membranes had expired in May 2014.
- (d) Action had not been taken to encash the performance security bond valued at Rs.1,372,346 of a contract cancelled 07 years ago due to breaching the conditions of the agreements.

## **5. Accountability and Good Governance**

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### **5.1 Action Plan**

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An Action Plan had not been prepared from the year 1981 in which the National Health Development Fund was commenced.

### **5.2 Budgetary Control**

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Expenditure on Health Development Projects had decreased by 41.5 per cent than the estimated value as compared with the estimated and actual expenditure of the Fund relating to the year under review and expenditure on stationery had decreased by 70 per cent than the estimated value. Moreover, expenses had not been incurred for repairs of office equipment and motor vehicles during the year. As such, it was observed that the budget had not been made use of as an effective instrument of financial control.

## **6. Systems and Controls**

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

- (a) Financial Management
- (b) Control of Purchases
- (c) Control of Project Expenditure

**Income and Expenditure Statement**  
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According to the financial statements presented, the income and expenditure of the year ended 31 December 2014 as compared with that of the preceding year are given below.

**Year ended 31 December**

	<b><u>2014</u></b>		<b><u>2013</u></b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Income			
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Jathika Sampatha Lottery Income	64,901,840		61,357,280
Donations	151,032,180		162,998,913
Interest on Investments	23,080,887		35,699,162
Other Income	35,616,537		33,244,203
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		274,631,444	293,299,558
<u>Expenditure</u>			
Administration Expenses	2,206,057		2,004,795
Finance and Other Expenses	32,000		24,150
Health Development Project Expenses	223,221,520		338,410,992
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		225,459,577	340,439,937
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Deficit/Surplus		49,171,867	(47,140,379)
Prior Year Adjustments		-	239,596
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		49,171,867	(46,900,783)
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## Statement of Investments

## Fixed Deposits (People's Bank)

Certificate No.	Date of investment	Period of investment	Balance as at 01 January 2014	Investments made during the year 2014	Withdrawals during the year 2014	Balance as at 31 December 2014
			Rs.	Rs.	Rs.	Rs.
865632	21/12/2013	3 months	63,000,000	-	-	63,000,000
865633	21/12/2013	3 months	23,000,000	-	-	23,000,000
865615	14/12/2013	3 months	20,000,000	-	-	20,000,000
865614	14/12/2013	3 months	20,000,000	-	-	20,000,000
865616	14/12/2013	3 months	15,000,000	-	-	15,000,000
331419	08/10/2013	3 months	1,500,000	-	-	1,500,000
379711	14/03/2012	01 year	10,000,000	-	10,000,000	-
865606	05/12/2013	3 months	50,000,000	-	-	50,000,000
865627	21/12/2013	3 months	35,000,000	-	-	35,000,000
			237,500,000		10,000,000	227,500,000

## Treasury Bills (Bank of Ceylon)

Certificate No.	Date of investment	Period of investment	Balance as at 01 January 2014	Investments made during the year 2014	Withdrawals during the year 2014	Balance as at 31 December 2014
		(Days)	Rs.	Rs.	Rs.	Rs.
314	21/02/2014	350	15,863,144	-	-	17,540,972
314	26/12/2014	182	4,816,955	-	-	4,863,815
314	29/08/2014	182	40,038,124	-	-	40,477,098
M13B-026845	29/12/2014	04	50,000,000	16,000,000	5,000,000	16,000,000
M13B-026303	29/12/2014	13	9,000,000	35,000,000	9,000,000	35,000,000
			74,718,223	51,000,000	14,000,000	113,881,885