

National Health Development Fund - 2015

The audit of financial statements of the National Health Development Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No.38 of 1971 and Section 10(2) of the National Health Development Fund Act, No. 13 of 1981. My comments and observations which I consider should be published with the 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 including the income and expenditure statement and the statement of investment of money owned by the Fund as Annexure 01 and as Annexure 02 respectively appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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's 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 Fund's internal control. 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. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Health Development Fund as at 31 December 2015 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

2.2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed

Reference to Laws, Rules, and Regulations.	Non compliances
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| (a) Paragraph II of the Letter No. Health Ministry/CA/011/2015 dated 01 January 2015. | Although the approval of the Secretary to the Ministry should be obtained to perform duty exceeding 150 overtime hours, contrary to that, overtime allowances amounting to Rs.557,834 had been paid to 8 Nursing Officers of the Eye Bank in 72 instances during the period from January to September 2015 exceeding their basic salary without obtaining the formal approval. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 571 | Action in terms of financial regulation had not been taken on retention money totalling Rs.6,991,265 which had exceeded 2 years from the date of deposit. |

3. Financial Review

3.1 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.6,443,292 as compared with the corresponding surplus of Rs.49,171,867 for the preceding year, thus indicating a deterioration of Rs.42,728,575 in the financial result in the year under review as compared with the preceding year. The increase in the expenditure of the Health Development Project by Rs.63,884,216 had mainly attributed to the above deterioration.

Although the financial results of the Fund in the year 2012 was a surplus of Rs.102,502,994, it had been a deficit of Rs.46,900,783 in the year 2013. Again, the financial results in the year 2014 was a surplus of Rs.49,171,867, whereas it had decreased up to Rs.6,443,292 during the year under review.

Although the donations received in each year are brought to accounts as an income of the year, those donations had not been utilized within the year itself and as such, a material variance in the financial results had taken place.

4. Operating Review

4.1 Performance

In terms of the National Health Development Fund Act, No.13 of 1981, the development and promotion of institutions providing health-care services in Sri Lanka, the promotion of research among, and the advancement of the education or knowledge of, persons engaged in the health-care services of Sri Lanka, ensuring so however that where any donation is received for the purpose of financing a particular project, such donation is, as far as practicable, utilized to finance that particular project and to finance any purpose leading towards the protection of the health of the people, and the purchase of medical equipment and essential drugs used for the purposes of health-care services in Sri Lanka are the objectives of the Funds. The matters revealed at the audit test check carried out on the achievement of the above objectives are given below.

- (a) As the institutions providing health-care services in the rural areas were unaware that the assistance of the Fund could be obtained for minimizing a large number of shortcomings of those institutions and as appropriate steps had not been taken to make aware those institutions, the objectives of the Fund had not been adequately achieved. The funds existed in the General Fund of the Health Development Fund in the years 2012,2013,2014 and 2015 that could have been utilized for the year had been Rs.230,311,207, Rs.276,654,645, Rs.261,124,443 and Rs.295,194,406 respectively and out of that 78 per cent, 62 per cent, 79 per cent and 82 per cent had not been utilized for the objectives of the Fund.
- (b) A foreign government had agreed to grant a donation of Rs.3,044,000 for providing spectacles for 3000 visually handicapped students in the Kurunegala District and in terms of the Memorandum of Understanding, that project should be commenced on 01 October 2012 and be completed in September 2013. Nevertheless, the donation received by the end of the year under review was Rs. 2,289,402 and the number of spectacles distributed had been 891. As a result of poor progress, the period of the project had been extended up to 30 September 2014, whereas the physical and the financial progress of the project by the end of the year under review as well had been only 30 per cent and 45 per cent respectively. Further, it had been identified that there were 3,283 students in 12 Medical Officer of Health Divisions, but the provision of spectacles had not been carried out by the Vision 2020 project and action had not been taken to identify visually handicapped students in 6 Divisions of the Medical Officer of Health.

- (c) In order to conduct providence programmes of a project launched with the expectation of facing Avian influenza successfully during the period from the year 2014 to the year 2018, the United State of America had granted a sum of Rs.22,391,132 to the Health Development Fund during the year under review. The matters observed in this connection are given below.
- (i) An annual Action Plan had not been prepared inclusive of time frames so as to be enable the achievement of project objectives within the specific period.
 - (ii) According to the budget prepared for the year under review, it had been planned to carry out 25 activities. The entire provision of Rs.10,702,700 thereof made for 12 activities had not been utilized and a sum of Rs.1,091,969 had been incurred exceeding the provisions amounting to Rs.11,688,432 made for the remaining 13 activities.
 - (iii) According to the activities performed during the year under review, although a sum of Rs.2,404,950 had been spent exceeding the provision of Rs.6,170,100 made for the purchase of Reagents and Consumables required for the tests, out of 1,080 Influenza Like Illness (ILI) tests and 240 Severe Acute Respiratory Infection (SARI) tests scheduled to be conducted during the year under review, only 570 tests and 120 tests had been carried out respectively.
- (d) The donations amounting to Rs.16,853,756 received for the 11 specific activities had not been utilized for the objected purpose during a period from 3 to 28 years and action had not been taken to use that money for another suitable purpose having considered the requirements.

4.2 Management Activities

The following observations are made.

- (a) As the sum of Rs.384,560 donated by the World Health Organization to the Fund for the Mental Health Programme of the National Institute of Mental Health, Mulleriyawa during the year under review had not been utilized for the relevant purpose within the specific period, it had to be returned to the World Health Organization.
- (b) In terms of the Memorandum of Understanding entered into with the Asia Cornea Foundation in Singapore in establishing Sri Lanka Eye Bank fostered by the World Health Organization, for the surgeries performed domestically within Sri Lanka, corneas are provided from the Sri Lanka Eye Bank, free of charge. Although many medical practitioners who obtain corneas from the Eye Bank perform surgeries in private hospitals as well, the Sri Lanka Eye Bank had not obtained an assurance to the effect that money is not recovered from the patients for those corneas.

4.3 Transactions of Contentious Nature

The following observations are made

- (a) After paying 20 per cent advance of the value of machines due to be purchased by the Sri Lanka Thripasha Ltd to the supplier selected after the procurement process, 4 officers had proceeded abroad for the testing of those machines. Although it had been recommended that a team with technical knowhow should participate in this regard, 3 out of the 4 officers did not have the technical knowledge. Further, instead of 7 day tour as planned they had spent 10 days and as such, a sum of Rs.464,111 exceeding the estimated amount had been spent. The total amount spent from the Fund in respect of the foreign tour including the traveling and subsistence allowances of an officer of the Sri Lanka Embassy in United State of America amounted to Rs.3,600,000 and the Fund had not established the expenditure through the air tickets and other relevant documents.
- (b) With the objective of providing funds only for the urgent financial requirements of the National Blood Bank, the Central Blood Bank Development Fund had been established under the National Health Development Fund in the year 2001. Nevertheless, contrary to that objective, a sum of Rs.2,036,076 had been spent from the Central Blood Bank Development Fund for the conduct of the National Blood Donation Day and the annual study session of the Blood Transfusion Service and the requirement for purchasing 5000 ceramic mugs by spending a sum of Rs.1,103,895 out of the above amount could not be established in audit.

4.4 Procurement and Contract Process

The following observations are made.

- (a) The demurrage charges amounting to Rs.132,557 for 33 days in respect of the work completion contract of the 2nd phase of the Nursing Hostel, Puttlam had not been recovered from the contractor and the approval of the Procurement Committee had not been obtained for carrying out additional works costing Rs.1,880,809 exceeding 15 per cent of the contract value.
- (b) The National Lotteries Board had agreed to construct and award a cafeteria building at a cost of Rs.2,550,000 to the National Eye Hospital and a sum of Rs.1,079,207 of it had been sent to the Fund in October 2013. For the contract awarded on 10 March 2013, a sum of Rs.1,079,207 had been paid by 31 December 2015. Nevertheless, despite the value of the works completed as at that date amounted to Rs.791,536, the contract had been abandoned. Accordingly, a sum of Rs.287,671 had been overpaid to the contractor for the works not done.

5. Accountability and Good Governance

5.1 Action Plan

Action had not been taken to prepare an Action Plan from the inception of the National Health Development Fund.

5.2 Budgetary Control

As significant variances ranging from 18 per cent to 100 per cent were observed between the budgeted and estimated expenditure of the Fund relating to the year under review , the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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.

Area of System and Control

Observations

(a) Health Development Projects

In the payment of allowances for the functions and programmes and incurring expenditure on foodstuffs, an accurate confirmation had not been obtained on the participation.

(b) Construction Contracts

There was no sound supervision to ensure that the works are carried out in accordance with the conditions of contracts, plans and the estimates.

Annexure 01

Income and Expenditure Statement

* According to the financial statements presented, the income and expenditure for the year ended 31 December 2015 as compared with the preceding year are given below.

	<u>As at 31 December 2015</u>			
	<u>2015</u>		<u>2014</u>	
	Rs.	Rs.	Rs.	Rs.
<u>Income</u>				
“Jathika Sampatha” Lottery	69,322,320		64,901,840	
Income				
Donations	154,629,240		151,032,180	
Interest on Investments	20,527,297		23,080,887	
Other Income	<u>51,628,084</u>		<u>35,616,537</u>	
		296,106,941		274,631,444
<u>Expenditure</u>				
Administrative Expenditure	2,534,903		2,206,057	
Financial and Other Expenditure	23,010		32,000	
Health and Development Projects Expenditure	<u>287,105,736</u>		223,221,520	
		(289,663,649)		(225,459,577)
Surplus		<u>6,443,292</u>		<u>49,171,867</u>

Annexure 02

Statement of Investment

Fixed Deposits - Peoples Bank

Certificate No.	Date of Investment	Period of Investment	Balance as at 01 January 2015	Investment in the year 2015	Withdrawals in the year 2015	Balance as at 31 December 2015
			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
865616	14/12/2013	3 months	15,000,000	-	-	15,000,000
331419	08/10/2013	3 months	1,500,000	-	-	1,500,000
865615	14/12/2013	3 months	20,000,000	-	-	20,000,000
865614	14/12/2013	3 months	20,000,000	-	20,000,000	-
865606	05/12/2013	1 Year	50,000,000	-	-	50,000,000
865627	21/12/2013	3 months	35,000,000	-	-	35,000,000
			227,500,000		83,000,000	144,500,000

Treasury Bills – Bank of Ceylon

Certificate No.	Date of Investment	Period of Investment	Balance as at 01 January 2015	Investment in the year 2015	Withdrawals in the year 2015	Balance as at 31 December 2015
		Days	Rs.	Rs.	Rs.	Rs.
314	21/02/2014	350	17,540,972	-	-	18,704,743
314	26/12/2014	182	4,863,815	-	-	4,844,960
314	29/08/2014	182	40,477,098	-	-	40,388,919
314	25/09/2015	182	-	19,347,040	-	19,347,040
M 13 B 026845	29/12/2014	04	16,000,000	-	16,000,000	-
M 13 B 026303	29/12/2014	13	35,000,000	-	35,000,000	-
1036618	21/12/2015	14	-	12,500,000	-	12,500,000
M 15 B – 015915	08/09/2015	182	-	80,000,000	-	80,000,000
1002410	30/12/2015	05	-	13,000,000	-	13,000,000
1036614	21/12/2015	14	-	10,500,000	-	10,500,000
			113,881,885	135,347,040	51,000,000	199,285,662