

National Health Development Fund - 2022

1.1 Financial Statements

1.2 Qualified Opinion

The audit of the financial statements of National Health Development Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 report to 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

1.3 Basis for Qualified Opinion

My opinion is qualified 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 Public Sector Accounting Standards, and for such internal control as management determine 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 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 Responsibilities 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 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 Institute'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 Institute 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) According to paragraph 48 of Sri Lanka Public Sector Accounting Standard No.01, although income and expenses should not be set off, contrary to that, Rs.63,255,479 of the income (Processing Charges) for cornea supplied to foreign countries had been offset by the Rs.4,355,052 incurred for cornea storage media and shown in the financial statements.	That when supplying conjunctiva to foreign countries, the National Eye Bank charges the expenses incurred for cornea storage media separately from them. Since the cost incurred for cornea storage media is actually an expense, Rs.4,355,050 has been recognized as an expense for the year 2022 and that it has been transferred from the income account for c cornea to the storage media expense control account.	Sri Lanka public sector accounting standards should be followed.
(b) According to paragraph 47 of Sri Lanka Public Sector Accounting Standard 03, although material prior period misstatements are to be corrected retrospectively by restating the comparative figures presented for the period in which the error occurred in the first set of financial statements approved for issue after they are discovered, National Eye Bank had adjusted a balance of Rs.5,331,981 as previous year adjustments to the accumulated surplus brought forward on 01 January 2022 without proceeding accordingly.	Although the income and expenses of National Eye Bank should be recognized on an accrual basis and accounted for by the National Health Development Fund, since the National Eye Bank has been accounting on a cash basis beginning of 2010 and from that, the accumulated fund of the National Eye Bank as of 01 January 2022 has been overestimated by Rs.5,331,981 and it has been adjusted to the brought forward of accumulated surplus on 01 January 2022.	Sri Lanka public sector accounting standards should be followed.

- (c) As per paragraph 65 of Sri Lanka Public Sector Accounting Standard No.07, due to non-annual review of effective life of the non-current assets, although Rs.4,291,988 of the total fixed assets of the National Health Development Fund and the National Eye Bank have been fully depreciated, those have being continually utilized. The estimated error occurred accordingly had not been revised in accordance with Sri Lanka Public Sector Accounting Standard No.03.
- According to the 2022 Board of Survey reports, it has been confirmed that certain fixed assets are currently disposed and are in a condition that cannot be further used, that these assets will be disposed in the year 2023 and accordingly there is no estimated error.
- Sri Lanka public sector accounting standards should be followed.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) The fund did not identify a policy for the provision for bad debt and did not disclose it in the financial statements and 100 percent provision for bad and impairment had been made during the year under review for the value of Rs.1,372,346 of the performance security guarantee received from a private insurance company due to the non-completion of the contract for the construction of the ward complex of Megahakivula Hospital in the year 2005.	The basis for provision of 100 percent of bad and impairment is that the Ceylinco Insurance Company has informed the Deputy Director General (Supply) that the performance security guarantee has expired on 26 October 2010 and therefore the amount of Rs.1,372,346 cannot be paid. That the basis for provisions of bad and impairment during the year under review has been correctly identified as per paragraph 22 of Sri Lanka Public Sector Accounting Standard No.08.	Accounting policies should be identified and disclosed in the preparation of financial statements.
(b) During the year under review, while any bill was not submitted by the Apeksha hospital, an amount of Rs.202,309,478 had been deducted from the donation account for the Apeksha hospital and shown as accrued expenses in the financial statements.	That the technical committee reports and documents related to the amount of Rs.202,309,478 for a CT Stimulator machine of Apeksha Hospital have been submitted on 16 December 2022 and since those expenses have been accrued by 31 December 2022, those expenses has been correctly recognized as an expenditure and accounted for in	Accrued expenses should be properly identified.

the year under review as per the Sri Lanka Public Sector Accounting Standard No.01.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

Audit Observation	Management Comments	Recommendation
<p>According to the approval of the Cabinet dated 04 May 2012 No.CP/12/0489/509/022 a memorandum of understanding had been signed between the four parties of the Ministry of Health, the Provincial Ministry of Health, the National Health Development Fund and the supporting agency Colours of Courage Trust fund for implement the project for cancer patients (Trail Project) in the Northern Province. According to the agreement, the aim of the project was to develop the cancer units of the Jaffna Teaching Hospital and Thelippale Basic Hospital. Under this, it was proposed to build the Radiotherapy Unit of Thelippale Basic Hospital and to provide the necessary medical equipment for the Children's Treatment Unit of the Jaffna Teaching Hospital. According to the audited information, Colors of Courage Trust had given Rs.218.6 million out of the Rs.244.5 million spent for the construction of the Radiotherapy Unit at Thelippalai Hospital. Nevertheless, all the amount collected and deposited under this project is an asset of the Ministry of Health and according to the agreement, although the remaining money of the project should be used for the improvement of the cancer</p>	<p>Although it was announced that the said institution is working according to the agreement in the discussion held on 06 December 2023 under the chairmanship of the Health Secretary and with the participation of the Colors of Courage Trust, the amount of Rs.62.16 million collected during the period up to 31 March 2022 has not been given to the fund so far.</p>	<p>Arrangements should be made to bring the receivables promptly.</p>

unit of the Jaffna Teaching Hospital, The collected amount of Rs.62.16 million received under the name called Jaffna Project from the above trust fund for the period up to 31 March 2022 had been kept in the custody of the Colors of Courage Trust Fund without being used to fulfill the tasks of the relevant agreement.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

The following observations are made.

	Reference to Laws, Rules, Regulations	Non-compliance	Management Comment	Recommendation
(a)	Guideline 2.3 of the Guidelines for Corporate Governance in Public Enterprises Circular No.01/2021 dated 16 November 2021	Although a strategic plan should be prepared to achieve the objectives of the Act, such plan had not been prepared in relation to the year under review.	That the strategic plan for the year 2022 has been prepared so that the objective of the N.H.D fund can be achieved,	Public Enterprises circulars should be followed.
(b)	Section 3(2)(e) of the National Health Development Fund Act No.13 of 1981	One of the members for the Board of Trustees appointed by the Minister according to the provisions of the Act for the administration, management and control of the fund had resigned from membership on 21 September 2021 and one member who had been appointed on 11 February 2020 had not attended the meetings of the Board of Trustees. As of the date of this report, arrangements have not been made to appoint new members for this purpose.	That the Secretary of Health, Chairman of the National Health Development Fund had taken steps to inform the Minister of Health about this in the year under review.	Arrangements should be made to promptly appoint new members for the vacant Board of Trustees positions.

- (c) Section 07 of the National Health Development Fund Act No.13 of 1981 Rs.2,000,000 had been granted to an association during the year under review for activities not included in the scope of the functions of the Fund Act. According to 07 (b) of the National Health Development Fund Act No.13 of 1981, that the funds can be given for the development of education or knowledge of those engaged in health care services in Sri Lanka, the purpose of INPALMS 2022 is for education and research in the fields of Legal Medicine, Forensic Science and accordingly, it has not acted against the rules and regulation. Activities not included in the scope of work specified in the Act should not be financed.

2. Financial review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.164,877,522 and the corresponding surplus of the previous year was Rs.188,434,937. Accordingly, a decline of Rs.23,557,415 was observed in the financial result. This decline was mainly due to the increase in funds and other transfer expenses by Rs.1,596,342,339 in the year under review.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) According to the Memorandum of Understanding reached with the Asia Cornea Foundation of Singapore in 2010 to establish the National Eye Bank of Sri Lanka and the approval of the Council of Ministers on 29 August 2013 to establish the National Eye Bank of Sri Lanka as a trust, As of 30 July 2023, arrangements had not been made to established the National Eye Bank of Sri Lanka as a separate structured corporate entity by an Act and prepare separate financial statements to record its transactions.	That the decision of the Cabinet stated in the Cabinet Paper No.052/509/1172/13 is to maintain the National Eye Bank of Sri Lanka (S.L.N.E.B.) as a project until it is established as a trust and it has been informed that the related cabinet papers, Act and the related legal proceedings to establish it as a trust will be carried out by the Legal Department.	The establishment of the National Eye Bank of Sri Lanka as a legal entity with a separate corporate structure should be expedited.

- (b) Although the Cabinet approval has been granted to continue the operation of the National Eye Bank of Sri Lanka as a project until it is established as a trust, and the hiring and payment of staff as per Management Services Circular No.33 dated 05 April 2007, due to the fact that the necessary conditions for the National Eye Bank of Sri Lanka to be considered as a project had not been fulfilled according to paragraph 1.1 of the Management Services Circular No.33, it was not possible to proceed as per the Cabinet decision and although the drafted Act for the establishment of the Eye Trust had been approved by the Cabinet of Ministers on 15 August 2022, It was not submitted to Parliament for approval until the end but in the year under review..
- It has been informed that the Cabinet Papers, the Act and the related legal work will be carried out by the Legal Department to install the trust.
- According to the Department of Management Services circular, the Cabinet should be informed that the National Eye Bank cannot be considered as a project and staff cannot be recruited accordingly and should look into the alternative measures that can be taken and act accordingly.
- (c) Although the approval has been given by decision of the Cabinet No.CP/11/0465/509/056 dated 23 March 2011 for the repair of building owned by Ampara General Hospital at an estimated cost of Rs.4.68 million and construction a paying ward, instead of repairing a building, a ground floor consisting of 08 rooms was constructed by spending Rs.18.20 million from the Health Development Fund. According to the said Cabinet Memorandum, it was decided to credit 60 percent of the ward income paid to the National Health Development Fund and the rest to the Consolidated Fund. It was observed that the total income from 2018 to 2021 was Rs.2,113,931 from this paying ward which was started in 2017 and it remained idle without any income in the year under review.
- General Hospital Ampara has informed the fund that due to the situation rising in the country in 2022, patients have not been admitted to the paid ward, and therefore income has not been received.
- Arrangements should be made to use the money of the fund for effective projects.

3.2 Operational inefficiencies

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) In the balance of Rs.1,080,398,675 held in the donation account as of December 31 of the reviewed year, the sum of donations received from various individuals and institutions for various purposes in the past years and in the year under review to Maharagama Cancer Hospital, Lady Ridgeway Hospital for Children and Angoda Mental Hospital and IDH Hospitals is Rs.899,119,214 had been invested in fixed deposits without being used for related tasks.	That the donations received for specific tasks are received by the fund based on the awareness of the heads of the respective institutions and payments are made subject to the approval of the board of trustees upon the notification of the heads of those institutions and funds have not been withheld for a long time without being used for the relevant tasks contrary to the request of the institutions implementing the projects.	Funds should be used efficiently and effectively.
(b) According to the information received during the audit, the total balance of donations received to the fund for 09 different projects in the period from 1997 to 2017 was Rs.12,266,239 as on 31 December 2018 and expenditure from these funds had not been spent on the relevant projects in the last 04 years.	That the authority to implement those special projects will be the heads of the institutions receiving the donations, the heads of the respective organizations should implement those works and that the fund does not have the power to implement those projects.	The relevant institutions should be informed and the funds should be used efficiently and effectively.
(c) The amount of Rs.55,745,076 of 05 donations received by the fund from the year 1998 to the year 2020 for the performance of various tasks had not been arranged to be used for the purposeful tasks until the end of the year under review.	According to Sections 06 and 07(c) of the National Health Development Fund Act No.13 of 1981, donations received for a special scheme are credited to the fund and only the payment for those special projects in accordance with government regulations is the work of the National Health Fund and that special projects should be implemented by the relevant institution and that the fund does not have the power to implement those projects.	The relevant institutions should be informed and arrangements should be made to use the funds of the fund efficiently and effectively.

- (d) Path organization of the United States of America had given a total of Rs.18,342,050 as grants to the Health Development Fund on two occasions for the project to identify the current cost and operational context of national human papilloma virus vaccination in Sri Lanka. According to the letter No.Scl/Pmu/Grant/19 and dated 25 July 2019 of the Director General of the Foreign Resources Department of the Ministry of Finance, the Foreign Resources Department had not been informed about the foreign grants of Rs.7,179,900 from above amount.
- That the foreign grants of Rs.7,179,900 will be dealt with as per letter No.Scl/Pmu/Grant/19 and dated 25 July 2019 of the Director General of the Department of Foreign Resources of the Ministry of Finance.
- Action should be taken as per the letter of the Director General of the Foreign Resources Department of the Ministry of Finance.
- (e) There was an amount of Rs.280,187,967 in the donation account for the Apeksha Hospital as on 01 January 2022 and the following observations are made in this regard.
- (i) A private grant of Rs.25,500,000 donated for the construction of a children's ward in the year 2015 and the public grant of Rs.127,990,440 received for the purchase of the Thormotherapy machine in the year 2019 were not used to fulfill the related tasks.
- According to Will and testament of Mrs. Dilini De Silva, the amount of Rs.25,550,000 for the construction of a children's ward, the public grant of Rs.127,990,440 received for the purchase of the Thorotherapy machine and the fund for the purchase of a CT Simulator machine by using the balance of the donation of the hospital Maharagama was informed by the director, Apeksha hospital to the fund and action has being done in this regard.
- Efforts should be made to use the funds of the fund efficiently and effectively.
- (ii) In order to continue the patient care service in the face of the current economic crisis, the Director of the hospital had informed the secretary of the Ministry of Health by the letter dated 29 June 2022 that Rs.202,309,478 is required to perform the tasks such as the grant collected to buy the Thormotherapy machine and
- According to Will and testament of Mrs. Dilini De Silva, the amount of Rs.25,550,000 for the construction of a children's ward, the public grant of Rs.127,990,440 received for the purchase of the Thorotherapy machine and the fund for the purchase of a CT Simulator
- Efforts should be made to use the funds of the fund efficiently and effectively.

the money left after the purchase of the Pet Scan machine will be used to buy a CT Simulator machine, construct a building to install that machine and obtaining power supply for the building where Sonial vision X ray machine is to be installed. According to the recommendation dated 13 December 2022 of the committee appointed to give recommendations for those works, although the Director of Apeksha Hospital had requested to reserve the relevant provisions by the Secretary of the Ministry of Health on 16 December 2022, any action had not been taken regarding the performance of the said works by the audit date of 18 July 2023.

machine by using the balance of the donation of the hospital Maharagama was informed by the director, Apeksha hospital to the fund and action has being done in this regard.

- (f) The remaining amount of Rs.6,783,190 out of the amount of Rs.27,192,285 given by several donor organizations for the purchase of PCR Testing Machine to the Hambantota District General Hospital had not been used for the related tasks by 31 December 2022.
- Director District General Hospital Hambantota has the authority to spend Rs.6,783,190 donations to Hambantota District General Hospital and the National Health Development Fund has not retained it in any way and that the Fund has informed the Director District General Hospital Hambantota about this balance.
- Efforts should be made to use the funds of the fund efficiently and effectively.

- (g) The performance of National Eye Bank for the period from 2020 to 2022 is given below.

Year	2020	2021	2022
The number of cornea collected	1014	665	1010
Use of cornea	Demand	Supply	Percentage of Supply
Government hospitals	791	571	72
Private hospitals	257	189	74
Foreign countries	220	185	84
			Demand
			Supply
			Percentage of Supply
			43
			48
			83
			767
			454
			59
			55
			94

The following observations are made.

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| (i) In the year 2021 relative to the year 2020, the number of cornea collected by the eye bank had decreased by 34 percent and in the year 2022 compared to the year 2021, the number of cornea had increased by 52 percent. | The National Eye Bank is working with a limited number of employees, and the National Eye Bank is focusing more on supplying local cornea. | Priority should be given to meeting the requirement of local cornea. |
| (ii) 72 percent of the demand for cornea from government hospitals in 2020, 43 percent in 2021, and 59 percent in 2022 had been provided. | The National Eye Bank is working with a limited number of employees, and the National Eye Bank is focusing more on supplying local cornea. | Priority should be given to meeting the requirement of local cornea. |
| (iii) 74 percent of the demand made by local private hospitals in the year 2020, 48 percent in the year 2021 and 55 percent in the year 2022 had been provided. | The National Eye Bank is working with a limited number of employees, and the National Eye Bank is focusing more on supplying local cornea. | Priority should be given to meeting the requirement of local cornea. |
| (iv) During the period from the year 2020 to the year 2022, 83 percent to 94 percent of the demand for cornea from foreign countries had been supplied. Thus, it was observed that Eye Bank had paid more attention to supply the demand of foreign countries compared to the supply made for domestic demand. | The National Eye Bank is working with a limited number of employees, and the National Eye Bank is focusing more on supplying local cornea. | Priority should be given to meeting the requirement of local cornea. |

3.3 Underutilization of funds

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) Although 09 tasks with an estimated cost of Rs.306.2 million were expected to be performed by the action plan of the Health Development Fund for the year 2022, 07 tasks with an estimated cost of Rs.248.2 million had not been performed during the year. Also, the utilization of General funds owned by the National Health Development Fund for the promotion of health services in Sri Lanka was in a weak condition and the cumulative income of the General fund was Rs.608,943,133 on 31 December 2022 and the amount spent from the General fund during the year under review was only Rs.141,871,323. Thus, funds utilization of the fund remained at a low level of 23 percent.	The value of the action plan approved by the Board of Trustees of the National Health Development Fund is Rs.206 million. That the Board of Trustees has been instructed to implement the two additional works amounting to Rs.96.2 million only if funds are available.	Efforts should be made to efficiently utilize the money of the General fund.
(b) Rs.449,988,680 was received as lottery income during the period from 2014 to 31 December 2022 and during that period only Rs.241,948,616 had been spent on purposeful tasks such as purchasing hospital equipment and repairing hospitals. Accordingly, the utilization of lottery income remained at a low level of 54 percent.	That the National Health Development Fund primarily receives money from the lottery income and the expenses incurred for the administration of the fund and the use of the funds to achieve the objectives of the fund are made from the lottery income.	The income received from the Health Development Lottery should be used to fulfill the purpose of the lottery.