

## National Health Development Fund - 2023

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### 1. Financial Statements

#### 1.1 Qualified Opinion

The audit of the financial statements of the National Health Development Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 the National Audit Act No.19 of 2018 and 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 2023 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### 1.2 Basis for Qualified Opinion

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

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 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 of the Fund and using the going concern basis of accounting unless management either intends 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 skepticism 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. 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 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

Audit Observation	Comments of the Management	Recommendation
(a) Although in accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standards 3, material prior period errors 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, a balance of Rs.26,162,310 as prior year adjustments of the National Health Development Fund had been adjusted to the accumulated surplus brought forward on 01 January 2023 and to the related accounts in the current year without proceeding accordingly.	That the quantitative prior period errors have been correctly adjusted in accordance with paragraphs 27, 28, 33, 48 and 54 of Sri Lanka Public Sector Accounting Standard 3, that retrospective adjustment in accordance with paragraphs 27 and 28 of Sri Lanka Public Sector Accounting Standard 3 means adjusting the opening balances of the accounts brought forward from the previous year and that understatement or overstatement has not been occurred in the financial statements.	Sri Lanka Public Sector Accounting Standards should be followed.
(b) According to paragraph 69 of Sri Lanka Public Sector Accounting Standard No.7, although depreciation should be done from the date of use of the asset, inconsistent with that, the fund had implemented an accounting policy of depreciation from the year after the year of purchase of the asset regardless of the date of use of the asset.	That the asset management policy has been correctly identified according to paragraphs 02, 71 and 88 of Sri Lanka Public Sector Accounting Standard No.07, and the asset depreciation policy can be determined based on the decision of the management of the relevant institution.	Sri Lanka Public Sector Accounting Standards should be followed.

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>The gain of Rs.27,714,909 from the revaluation conducted during the year related to Eye Bank and an amount of Rs.202,309,478 provided in previous year for the accrued expenses of the National Health Development Fund but unspent during the year under review was erroneously adjusted as income for the year to the financial performance statement and therefore the surplus of the year had been overstated by the Rs.230,024,387.</p>	<p>That the correct adjustments have been made in accordance with paragraphs 27, 28, 33, 48, 54 of Sri Lanka Public Sector Accounting Standard 3 and paragraph 52 of Sri Lanka Public Sector Accounting Standard 7, That all adjustments have been made in accordance with Sri Lanka Public Sector Accounting Standards affecting the rights of minority shareholders in the balance sheet and that the surplus for the year has not been recognized as income of the fund and has not been overstated.</p>	<p>Action should be taken to correct this error.</p>

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>As per the Cabinet decision No. CP/12/0489/509/022 dated 04 May 2012, according to the Memorandum of Understanding between the Ministry of Health, the Provincial Ministry of Health, the National Health Development Fund and a trustee company which was the supporting institution for the implementation of the project for cancer patients in the Northern Province (Trail Project), it was proposed to construct the Radiotherapy Unit of Thelippale Base Hospital and to provide medical equipment for the Children's Treatment Unit of the Jaffna Teaching Hospital under this project. The aforesaid trust company had given Rs.218.6 million as grant for the construction of Thelippale Hospital. According to the agreement,</p>	<p>As per the decision of the Board of Trustees of the National Health Development Fund, a letter has been sent on 14 June 2024 requesting the intervention of the Attorney General to recover the receivable amount from the relevant trust company.</p>	<p>Money should be collected immediately and used for purposeful activities.</p>

since the grant collected by the respective trust company with the name of Jaffna Project is a property of the Ministry of Health, an amount of Rs.72,356,055 collected during the period up to 31 March 2023 was not used for the improvement of the cancer unit of the Jaffna Teaching Hospital as per the agreement and had been retained by the company.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Guideline 2.3 of the Guidelines for Corporate Governance in State 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 a strategic plan is being prepared by the Sri Lanka Development Administration Institute.	Public Enterprises Circulars should be followed.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs.371,298,795 and the corresponding surplus of the previous year was Rs.164,877,522. Accordingly, a growth of Rs.206,421,273 was observed in the financial result. This growth was mainly due to a decrease of Rs.1,297,970,382 in expenditure incurred from funds and other receipts in the year under review.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the total value of the public funds collected under the Little Heart Project for the construction of a ten-storey building and the purchase of equipment for the Lady Ridgeway Hospital for Children was Rs.624,435,910, only Rs.81,397,296 from that value had been spent during the year.	That the reminders have been sent to Director Lady Ridgeway Hospital for Children asking them to submit project proposals.	Actions should be taken to use the donations efficiently.

(b) It had been decided by the Cabinet Decision No. CP/13/1172/509/052 dated 29 August 2013 to establish the National Eye Bank of Sri Lanka as a Trust and to maintain as a project in accordance with the provisions of the existing Memorandum of Understanding until the constitution is enacted for the establishment of the Trust and, to prepare recruitment procedures according to Management Services Circular No.33, which stipulates the conditions to be followed in the recruitment of staff for projects operating on foreign grant in order to be able to retain specially trained professionals and to pay salaries using the grants received by Eye Bank using the said circular as a guide. The following facts are observed in this regard.

(i) According to the Memorandum of Understanding reached with the Asia Cornea Foundation in Singapore in 2010 and the above Cabinet approval, Although Sri Lanka National Eye Bank Trust had established by the Sri Lanka National Eye Bank Trust Act No.22 of 2023 dated 17 October 2023 as a unit with a separate organizational structure, the separate financial statements had not been prepared and submitted to the Auditor General for reporting transactions for the year under review in accordance with the provisions of the Act and the transactions had been recorded as a project in the National Health Development Fund account.

As per Public Enterprises Department Circular No.12/2003, for establishment of an institution, that a corporate plan including vision, mission and objectives should be prepared and in accordance with that, the necessary staff for the organization should be determined and positions should be created and the approval of the Management Services Department should be obtained and recruitment procedures should be prepared and recruitment should be carried out and, that it had been approved the continuation of the Fund as a project until the Board of Trustees of the Sri Lanka National Eye Bank Trust and the Fund is established and that there is no statutory background necessary for the preparation of financial statements.

Provisions of Sri Lanka National Eye Bank Trust Act should be followed.

- (ii) Action had not been taken to preparation of cadre recruitment procedures for the Sri Lanka National Eye Bank and obtaining the approval of the Department of Management Services until 15 July 2024 which was the date of audit. That the positions should be created in accordance with the corporate plan and employees should be recruited subject to the approval of the Management Services Department according to the Public Enterprises Department Circular No.12/2003, and that the quotations for the preparation of the corporate plan have been called and presented to the Technical Committee for evaluation. Cadre recruitment procedures should be prepared and approved by the Management Services Department.
- (iii) Despite the Eye Bank cannot be recognized as a foreign aid project due to the non-fulfillment of the necessary conditions as per the provisions mentioned in paragraph 1.1 of the said Circular, based on the Public Circular of the Ministry of Health No.1822/11 dated 22 December 2022 issued regarding the payments of honorariums, per diems and payment of lecture fees to resource persons, participants, lecturers and other contributing officers in meetings, workshops, training programs etc. conducted by the projects implemented with the funds of the World Health Organization, an honorarium of 14 days per month had been paid to one officer with the approval of the Ministry Secretary. Accordingly, Rs.2,990,400 had been paid on behalf of 31 offers including 23 officers of the Sri Lanka National Eye Bank and 08 officials of the Ministry of Health and Health Development Fund during the year under review. A Cabinet approval or Treasury approval had not been obtained for the payment of allowances. Since it has been issued with the prior approval of the Cabinet and the Treasury for the services of professionals working in foreign-aided projects controlled under the Ministry of Health, the Circular does not require any approval from the Treasury or the Cabinet and as the National Eye Bank is maintained by grants received for corneas from abroad during the year under review and, that the professionals of hospitals and institutions governed by the Ministry of Health working there are paid under the approval of the Secretary of Health who is the Chief Accounting Officer of the Ministry of Health. Actions should be taken to obtain the approval of the Cabinet and the Treasury regarding the payments.
- (c) There was a balance of Rs.406,243,364 in the donation account for the Apeksha hospital as of 31 December 2023 and these funds had not been used for any effective work in the years 2022 and 2023. The

following observations are made in this regard.

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|------|--|--|---|
| (i)  | The total of Rs.153,540,440 public assistance money received in the years 2015 and 2019 respectively for the construction of a children's ward and the purchase of a Thermo Therapy machine for the Apeksha hospital had not been used to fulfill the respective objectives.   | According to Sections 6 and 7 (c) of the National Health Development Fund Act No.13 of 1981, donations received on behalf of a special scheme are credited to the fund and that the fund is only responsible for paying for those special projects in accordance with government regulations, that the authority to implement those special projects is the heads of the institutions receiving the relevant donations and that the donations received including for the Thermo Therapy machine will be used for the installation of the CT Simulator. | Actions should be taken to efficiently use the money received as donations.                   |
| (ii) | Purchasing a CT Simulators machine which was the estimated cost of Rs.202,309,478 and the construction of the building required to install the machine and obtaining the electricity supply for the building where the Sonial Vision x-ray machine was to be installed by utilizing the grant collected to purchase a Thermo therapy machine in order to continue the patient care service in the face of the economic crisis according to the request made by the director of the Apeksha hospital in the year 2022 and the balance money after purchasing a Pet Scan machine had not been completed by the end of the year under review. | As informed by the Deputy Director (Biology) on 02 November 2023, due to a change in the model related to the CT Simulator, the tender that was called was canceled and the new tenders will be called again. It has been informed to take GE 68 Calibration Phantom for Pep CT Machine action in our letter dated 28 December 2023.   | -do-  |
| (d)  | The donations amounting to Rs.13,758,807 received to the fund in relation to 04 different projects from the year 1998 to the year under review had been retained in the donation account without being used to fulfill the purposeful tasks.   | That the Kirigoris Appuhami Fund will be used to repair patient toilets at Tangalle Base Hospital, That the public fund for Thalassemia patients has been informed to be retained for receiving when necessary and since the amount received for the anti-Covid programs can   | Actions should be made to efficiently use the donations to fulfill the purposeful activities. |



only be used for those programs, that the chief financial officer has been informed to direct the expenses under the direction of the Board of Trustees.

- (e) Rs.42,035,398 given by a donor in the year 2020 for the improvement of the operating theater complex of Lady Ridgeway Hospital for Children and donations of Rs.11,250,000 received in the year under review for the purchase of consumables required for surgeries had not been used to fulfill the related tasks.
- That the funds for the Little Heart Project and the purchase of consumables are made by the College of Pediatricians and given to Our Lady of Ridgeway Hospital at their request.
- Actions should be taken to efficiently use donations for purposeful activities.
- (f) The remaining amount of Rs.9,324,047 in relation to 03 projects completed in the years 2019 and 2020 was further retained in the donation account without making any arrangements to use it effectively.
- That the balance of the Fellowship program for Korean Doctors has been informed to be retained by the Additional Secretary Public Relations, That the remaining amount of the PCR machine for Ratnapura Hospital will be used for the kitchen renovation and the remaining amount for the Hambantota District PCR machine will be used to prepare a sitting area for people and park for motorcycles.
- Actions should be taken to use the funds effectively.
- (g) The performance guarantee worth Rs.1,372,346 which was canceled due to the non-completion of the contract for the construction of the ward complex of the Meeghakiula Hospital in the year 2005 had not been reimbursed by the insurance company. The responsible parties for that had not been identified and, the amount had been written off as bad debt based on the decision of the Board of Directors in the year under review.
- That this performance guarantee has been expired, that the employees of the fund cannot be named as a responsible party for this and the board of trustees of the fund has studied the facts and decided to write off this from the accounts of the fund.
- Actions should be taken to identify the parties who responsible for the loss incurred by the government.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the Cabinet approval had given to repair a building owned by Ampara General Hospital and establish a paying ward, Rs.18.20 million had been spent from the Health Development Fund to construct a building consisting of 8 rooms instead of repairing the building. This paying ward was established in the year 2017and according to the Cabinet Memorandum, it was decided to credit 60 percent of the income of the paying ward to the National Health Development Fund and the rest to the Consolidated Fund .Although an amount of Rs.2,113,932 has been received by the fund for the period from the year 2018 to the year 2021as income of the paying ward, It was being idle without gaining income in the last two years.	As patients have not been admitted to the paying wards due to the situation was in the country in the year under review, income has not been received and The Health Secretary and the Director General of Health Services have informed that the paying wards should be maintained actively.	The requirements for paying ward should be fulfilled and actions should be taken to collect the prescribed fees.
(b) Although the project activities with the estimated cost of Rs.204,037,268 including the works that could not be accomplished by the action plan of 2022as per the Revised Action Plan of the Fund approved by the Governing Body for the year under review was expected to be completed in the year, the director of the Apeksha hospital has informed that it is not necessary to perform 02 tasks costing to Rs.61,368,422 and works costing to Rs.49,000,000 had not been completed during the year. Accordingly, the Annual Action Plan could not be used effectively to achieve the objectives of the fund as expected.	It was informed that 02 activities of Apeksha Hospital contained in the Action Plan of the year under review were not required to be carried out from the fund and that the respective vouchers were retrieved by Apeksha Hospital and that one task was indicated as Ongoing Activities in the financial year 2024.	Action should be taken to prepare an actionable Action Plan to achieve the objectives of the fund.

(c) The performance of National Eye Bank for the period from 2021 to 2023 is given below.

Year	2021			2022			2023		
The number of Eye Membranes (Corneas) collected	665			1010			1107		
Use of Eye Membranes (Corneas)	Demand	Supply	Supply percentage	Demand	Supply	Supply percentage	Demand	Supply	Supply percentage
Government Hospitals	686	294	43	767	454	59	1054	518	49
Private Hospitals	256	124	48	357	195	55	378	191	50
Sales to foreign countries	269	223	83	344	325	94	338	323	95

The following observations are made.

- (i) Compared to the years 2021 and 2022, the number of eye corneas collected by the eye bank increased by 66 percent and 9.6 percent respectively in 2023 and due to 75 i.e. 7 percent of the 1107 eye corneas collected in 2023 were expired or unsuitable for transplantation, it had to be removed from the uses. Only 08 test reports about the inappropriateness of eye corneas were obtained from external institutions and other eye corneas test reports were obtained only from within the institute and decisions were taken based on that.
- That the National Eye Bank operates with a limited number of employees, that the National Eye Bank focuses more on local eye membrane provision.
- A formal program should be implemented in order to increase the number of eye cornea collected during the year and for their protection,
- (ii) Only 43 percent, 59 percent and 49 percent of the demand made by government hospitals in the years 2021, 2022 and 2023 respectively were supplied and action had been taken to supply between 48 percent to 55 percent of the demand for eye corneas from private hospitals and 83 percent to 95 percent of the demand from foreign countries. According to the objectives of the Sri Lanka National Eye Bank Trust Act No.22 of 2023, although it was possible to provide free eye corneas to government hospitals and surplus to other countries on a
- That the National Eye Bank operates with a limited number of employees and that the National Eye Bank focuses more on local legal provision.
- Priority should be given to meeting the local eye corneas requirement.

processing fee that can be directed, the Eye Bank had focused more on meeting the demand of foreign countries than meeting the needs of government hospitals.

### 3.3 Under Utilizations of Fund

Audit Observation	Comments of the Management	Recommendation
(a) It was observed that the utilization of public funds owned by the National Health Development Fund for the promotion of health services in Sri Lanka was in a poor condition and the accumulated income of the general fund was Rs.729,412,012 as of 31 December 2023 and, the amount spent from the general funds during the year under review to fulfill the objectives of the Act was only Rs.60,614,018. Accordingly, the fund's cash utilization remained at a low level of 8.3 percent.	As per the paragraph 2.2.1 of the National Health Development Fund, that the cash of the fund will be utilized by confirming the going concern.	The funds should be used efficiently and effectively by informing the relevant institutions.
(b) Rs.674,624,055 was received as lottery income during the period from 2010 to 31 December 2023 and, although it was decided that these incomes should be used for the purchase of hospital equipment and hospital repair at the beginning of the lottery. A total of only Rs.427,200,196 had been spent as Rs.95,053,462 and Rs.332,146,734 respectively to fulfill those objectivity tasks in the period up to 31 December 2023.	Rs.629,241,009 out of the lottery income of Rs.674,624,055 was spent for the purposes of the fund according to paragraph 7 of the National Health Development Fund No.13 of 1981 and that the utilization of lottery income is at a high level of 93 percent.	Lottery income should be used to achieve the desired objectives through the operation of the lottery.