

## **Lanka Hospital Diagnostics (Pvt) Ltd - 2020**

---

### **1. Financial Statements**

---

#### **1.1 Opinion**

---

The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Ltd (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, statement of Profit or loss and other comprehensive income, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Opinion**

---

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 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 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 Company’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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## 1.4 Audit Scope (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 Company'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 Company'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 Company 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 Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Accounts Receivable and Payable**

### **1.5.1 Payables**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the value of cheques issued as at 31st December 2020 but not submitted within six months is Rs.5,458,065, no action had been taken to re-validate or recognize as an income after reasonable period of time.	As per the control mechanism, cheques not realized within six months transferred to stale cheque account since we have to settle them on demand. Further we have analyzed and identified which can be write back to the financial statement from above balances. This write back will be done soon after obtaining necessary management approval once it exceeds more than 5 years.	Necessary actions should be taken to clear the balance.
(b) The goods received to the stores but invoices were not received for payment amounting Rs.16,313,028 recorded as trade payable provision without recording relevant amounts to the respective creditors.	This is the provision made for goods received to the stores but invoices were not received for payment. Until we received the finalized invoices we are unable to book the payments against respective individual creditors. Since the accounts are finalized on accrual basis, particular expenses incurred during the year have to be accounted in the same financial year. Therefore, we have made a provision for all the goods received during the year under Trade and other payable as a provision. Further, this provision will be reversed based on the final invoice at the payment stage.	Necessary actions should be taken to clear the balance.

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a). Department of Public Enterprise circular No. PED 12 dated 02 June 2003	(i) According to the section 9.7, salaries and allowances should be based on approved schemes of recruitments and promotions and no revision would be permitted without the approval of the secretary to the treasury. However, the company had not complied with the requirement.	Lanka Hospitals Diagnostics (Pvt) Ltd. (LHD) is a company duly incorporated under the companies Act No. 7 of 2007 and operate as a private limited liability company which fully subsidiary of the Lanka Hospitals Corporations PLC. The Sri Lankan laboratory industry is extremely competitive, and to be successful and be identified as a significant medical laboratory service provider in the field, LHD has to perform its activities in parallel with other private medical laboratories in the market. Hence, LHD has to recruit and maintain talented and competent staff providing competitive salaries and wages, to be competitive in the market.	Action should be taken to get approval from the Department of Public Enterprise.
	(ii) According to the section 9.2.d, although the organization chart and the approved cadre should be registered with the Department of Public Enterprises the Company has not complied this requirement.	-do-	Action should be taken to get approval from the Department of Public Enterprise.

- (b). Department of public enterprise circular No. PED 1/2015 dated 25 May 2015 Contrary to the provisions of the circular, telephone and fuel allowances had been granted to the Chief Executing Officer exceeding the limits. -do- Action should be taken to get approval from the Department of Public Enterprise.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.366,611,362 and the corresponding profit in the preceding year amounted to Rs.299,707,855. Therefore an improvement amounting to Rs.66,903,507 of the financial result was observed.

### 2.2 Ratio Analysis

Ratio	2020	2019
Current Assets Ratio	4.36 times	4.04 times
Quick Assets Ratio	3.93 times	3.67 times
Gross Profit Ratio	60%	59%
Return on Capital Employed	34%	27%

## 3. Operational Review

### 3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
(a). As per paragraph 2.4 of government procurement guideline, primary responsibility of procurement is bearing by the head of the company and he may delegate the authority to their subordinators. However, no evidence pertaining to appointment of procurement committee by delegating authority to the respective procurement.	There is no separate Procurement committee for Lanka Hospitals Diagnostics Pvt Ltd. We follow the Procurement Committee of The Lanka Hospitals Corporation PLC. Currently we follow the Lanka Hospital Corporation PLC MOFA which included all delegation of authority and has approved by Board of Directors in Lanka Hospitals.	Need to take actions to comply with government procurement guideline.
(b) As per paragraph 2.12 in government procurement guidelines, all members of Procurement Committee are required to sign a declaration in the prescribed format at its first meeting.	As mentioned above Lanka Hospitals Diagnostics (Pvt) Ltd prime authority; BOD has appointed and approved PC and Approval matrix based on the	-do-

- We observed that there is no any declaration given by the members of PC in any procurement file.
- value and nature of the product. Also, BOD has instructed to initiate own procurement manual for Lanka Hospital Corporation and its subsidiaries instead of NPA guideline. Accordingly, each approval body has declared one time to the BOD.
- (c) As per paragraph 2.12 in government procurement guidelines, all members of TEC's are required to sign a declaration in the prescribed format at its first meeting. We observed that there is no any declaration given by the members of TEC in any procurement file.
- We have advised to TEC members to mention the declaration as "I collectively and individually take the responsibility for the above decision and recommendation" at the end of technical evaluation report after recommendation & before their signature.
- Need to take actions to comply with government procurement guideline.
- (d) Some members of the bid opening committee were not present at the committee meeting and representatives were present on their behalf. However, written evidence pertaining to the appointment of such agents had not submitted for audit.
- We have appointed fixed nominee of four members for LHD Bid open committee. Normally we circulate meeting request to participate for bid opening on previous day of bid opening date and some of the time, we had to conduct the bid opening session on minimum participation of three numbers at the time due to unavoidable reason. Currently we follow the Lanka Hospital Bid opening committee.
- Need to take actions to make appointments of representatives in proper way and keep documentary evidences.
- (e) According to paragraph 2.11.2 of government procurement guidelines, the secretary of the committee shall maintain a register of attendance of members for purposes of record. We did not found any attendance register from the company's procurement file.
- There is no separate Procurement committee for Lanka Hospitals Diagnostics Pvt Ltd. Secretary of Lanka Hospital Corporation procurement committee has maintained an attendance register and PC minutes for the purpose of record (signed by PC members).
- Need to take actions to comply with government procurement guideline.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

###### **Audit Issue**

According to Department of Public Enterprise circular No. PED / 12 dated June 02, 2003, the Draft Annual Report should have been submitted to the Auditor General within 60 days after the end of the financial year, but the Board had not submitted the Draft Annual Report.

###### **Management Comment**

The company is fully own subsidiary of Lanka Hospitals Corporation PLC. Further LHC published its annual report with information relating to Lanka Hospital Diagnostics (Pvt) Ltd as well. Therefore, separate annual report not published for LHD.

###### **Recommendation**

Circular provisions should be followed.