

Wijaya Kumaranatunga Memorial Hospital Board - 2014

The audit of Financial Statements of the Wijaya Kumaranatunga Memorial Hospital Board for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statements of financial performance, statement of changes in equity and 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 13(3) of the Wijaya Kumaranatunga Memorial Hospital Board Act, No. 38 of 1999. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act 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 controls 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 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board’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 Board’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 powers 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.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Wijaya Kumaranatunga Memorial Hospital Board 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

2.2.1 Sri Lanka Public Sector Accounting Standards

As a fair value is not shown with regard to Property , Plant ,and Equipment still in use despite being fully depreciated, action had not been taken to revalue and account the assets costing Rs. 65,240,368 in terms of Sri Lanka Public Sector Accounting Standard No. 07.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) As gratuity provision had been understated by a sum of Rs. 190,245 due to errors in calculating the gratuity provision for the year under review, the surplus for the year had been overstated by the said amount, and the gratuity provision had also been understated.
- (b) The retention money amounting to Rs. 621,558 with regard to the contract for the construction of laboratory building, had totally been omitted from the accounts.
- (c) A sum of Rs. 50,000 had been paid to a Multipurpose Co-operative Society in the year 2012 as a deposit for fuel. As the deposit had been accounted as an expense of the said year, the sum further receivable had not been shown in the financial statements.
- (d) A sum of Rs. 1,304,000 , an expense of capital nature, paid for the improvement of hospital premises , had been accounted under work in progress without being capitalized despite the intended purpose had been completed.
- (e) In spite of the construction work of the car park had been completed under phase 2 at an expense of Rs. 437,519 by the end of the year under review, the said amount had been accounted under work in progress instead of being capitalized under buildings.
- (f) The case filed by the former accountant of the Hospital on the deprivation of an extension of the service, had been concluded during the year under review. The sum of Rs. 306,975 paid to him as compensation, had been shown in the prior year adjustment account instead of being stated under employee compensation.
- (g) The cash flow statement should be prepared enabling to identify cash in-flows and out-flows during the year. However, the actual sum incurred for purchasing Property , Plant, and Equipment during the year under review was Rs. 23,051,532 but, the said sum had

been shown as Rs. 24,685,209 and as such the accuracy of the cash flow statement prepared had been questionable in audit.

2.2.3 Unexplained Differences

The fees charged for various surgeries and tests shown under other income in the financial statements totaled Rs. 21,582,450 while the said value was Rs. 22,354,200, according to the registers maintained at the hospital. Hence, a difference of Rs. 771,750 had been observed between the registers and the financial statements.

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

The following non-compliances were observed.

Reference to Laws, Rules , Regulations, etc.

Non-compliance

(a) Public Enterprises
Circular No. PED/12
dated 02 June 2003

(i) Section 7.4.5 A survey on fixed assets had not been conducted annually.

(ii) Section 9.2 (d) Even though the organization chart of an institute should be registered with the Department of Public Enterprises of the Treasury, the Hospital did not possess an organization chart approved by the Treasury in such a manner.

(b) Circular letter No. Recruitments and promotions procedure should have been prepared and presented to the National Salaries and Cadre Commission before 30 July 2009, but it had not been so done even by 31 December 2014.
PED/PU dated 08 July 2009

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of Hospital Board for the year under review had resulted in a surplus of Rs.3,558,018 as against the deficit of Rs.18,942,939 for the preceding year. As such, an improvement of Rs.22,500,957 in the financial result was indicated in the year under review. The main reason thereto was the increase of the recurrent grant and the other income by Rs. 59,750,000 and Rs. 5,812,927 respectively.

4. Operating Review

4.1 Performance

The performance of the year under review as compared with the preceding year is given below.

	2014	2013	Increase/ (Decrease)	Percentage
<u>Number of Patients treated</u>	-----	-----	-----	-----
Outdoor Patient Department	136,416	135,796	620	0.46
Emergency Treatment Unit	18,651	18,518	133	0.72
Clinics	122,338	112,030	10,308	9.2
Indoor Patients	17,381	15,969	1,412	8.8
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	294,786	282,313		
	=====	=====		

Number of Surgical Operations carried out

Eye	11,515	10,247	1,268	12.37
Laser tests	1,900	2,462	(562)	22.83
Minor Eye	250	263	(13)	4.94
General	109	131	(22)	16.79
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	13,774	13,103		
	=====	=====		

Number of Tests

Laboratory	47,157	34,082	13,075	38.36
X Ray	4,535	3,424	1,111	32.45
E.C.G.	3,408	3,005	403	13.41
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	55,100	40,511		
	=====	=====		

Expenditure (Rs.)

Laboratory Materials	953,905	870,934	82,971	9.53
X Ray Materials	226,547	193,042	33,505	17.36
Medical Equipment &				
Consumables	2,585,141	2,357,404	227,737	9.66
Drugs	50,232,436	31,282,074	18,950,362	60.58
Total Expenditure	217,597,454	173,252,725	44,344,729	25.6
Depreciations and Gratuity	23,308,345	22,453,384	854,961	3.81

Patient's Expenditure per Day (Rs) (Including Depreciation)	2,749	2,310	439	19
Patient's Expenditure per Day (Excluding Depreciation and Gratuity payments)	2,404	2,011	393	19.5

The following observations are made.

- (a) Even though the number of surgeries performed on eyes had increased by 12.37 per cent , minor eye surgeries had decreased by 4.94 per cent.
- (b) The number of lasers tests had decreased by 22.83 per cent , whereas the number of general surgical operations had decreased by 16.79 per cent.
- (c) Expenditure incurred on drugs had increased by 60.58 per cent.

4.2 Management Inefficiencies

The following observations are made.

- (a) An Optical Coherence Tomography Scanner had been purchased for Rs. 8,795,000 for the Hospital through a supplier selected by calling for limited quotations on the approval of the Secretary to the Ministry without selecting the supplier by calling for open quotations.
- (b) A sum of Rs. 50,000 had been deposited in the year 2007 for repairing the medical equipment of the Hospital. However, action had not been taken to set off the deposit when the bills had been settled after the repairs.

4.3 Operating Inefficiencies

Out of the patients admitted to the emergency treatment unit and the wards of the Hospital during the year under review , 69 had deceased. Corpses were seen placed at a corridor of ward No. 01 until being taken away due to non-utilization of the morgue. As the patients undergoing eye surgeries frequented this place, and cadavers could be a breeding ground for germs, the risk of spreading germs was observed.

4.4 Idle and Under-utilized Assets

The following observations are made.

- (a) As a surgeon of the Hospital had suspended performing eye surgeries since the year 2009, the Operating Microscope purchased for Rs. 765,000 in the year 2000 had been remaining idle for a period of 05 years.
- (b) A Laparoscopy machine purchased in the year 2010 for Rs. 11,532,317, was used only once in the year it was purchased. The machine remained totally idle for the period of 04 years from the year 2011 to 2014. Despite the recommendation of the audit committee

held on 03 September 2014 that the machine be exchanged with other useful instrument, the situation continued even by 30 April 2015.

- (c) A Nebulizer worth of Rs. 38,000 received as a donation on 07 October 2013, had remained idle for a period of 1 ½ years at the store of surgical material even by 30 April 2015
- (d) (i) A Fully Automated Hematology Analyzer capable of carrying out the test of Full Blood Count with D Count had been purchased in the year 2013. Despite the capacity of the machine to carry out at least 60 tests per hour, only 15 tests had been carried out per hour.
- (ii) Even though the Fully Automated Bio-chemistry Analyzer in the laboratory purchased in the year 2013 was capable of carrying out 22 different tests, only 10 are carried out. Furthermore, despite the capacity of the machine to carry out at least 300 tests per hour, only 12 tests had been carried out per hour. Hence, both of the high capacity machines purchased newly were observed to be under-utilized.

4.5 Uneconomic Transactions

Despite the requests made to the Medical Supplies Division to purchase drugs through annual estimates, it was observed in the examination of registers that the Medical Supplies Division had not supplied the Hospital with required drugs in many instances. In those instances, the Hospital had purchased drugs from the State Pharmaceutical Corporation. Following observations are made in that regard.

- (a) Even though the Medical Supplies Division had been requested for 2,500 units of the drug namely, Biphasic Isophane Insulin Injection (Human) 30 % soluble 70 % Isophane vial through annual estimates, inspection on the registers for the receipt of drugs revealed that only 1,300 units had been received. However, without obtaining documentary evidence to the effect that the rest could not be supplied, purchases had been made from the State Pharmaceutical Corporation at a higher price.
- (b) The sample check revealed that a sum of Rs 17,784,688 had been overspent for purchasing 07 types of drugs and 07 surgical materials from the State Pharmaceutical Corporation.

4.6 Deficiencies in Contract Administration

National Engineering and Research Centre (NERD) had been selected as the consultant for the contract to construct the laboratory building of the Hospital, and the management of the Hospital had decided to carry out the construction with technology from NERD. Accordingly, a cost estimate for the building valued at Rs. 12,969,151 (excluding VAT) had been prepared by the consultants of the contract. The contract had been awarded on 30 December 2013 to the institute which submitted the lowest bid, at a value of Rs. 12,431,157 (excluding VAT) on the agreement that construction would be completed and handed over within 210 days. The following observations are made with regard to the construction.

- (a) The contractor had been selected through limited quotations without calling for open quotations for the construction of new laboratory building, to which new extensions had

been added in the year 2013 at an estimate of Rs. 12.96 million based on the approval granted in the year 2012 to construct a laboratory building at a value of Rs. 1.5 million.

- (b) Even though it was proposed to set up a unit of wards on the ground floor of the proposed building, attention on the toilet facilities for the wards had not been drawn while the building was being planned.
- (c) As attention had not adequately been paid during the planning stage of the building, the contractor had to proceed with the construction under various extra works. The prior approval for those extra works had not been obtained from the consultants of the contract.
- (d) Due to variances between the prices of the institute to which the contract had been awarded, and the prices in the bills of quantity prepared by the consultancy company for the contract with regard to the following work items, an extra cost of Rs. 305,700 had been incurred. Particulars are given below.

<u>Work Item</u>	<u>No of Units</u>	<u>Price per Unit as per BOQ</u>	<u>Price per Unit as presented by the Contractor</u>	<u>Price in Excess of the BOQ</u>	<u>Extra Cost to be Incurred</u>	<u>Percentage of Exceeding the Price</u>
		<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
(i)L-18 Installation of Ceiling fans	16	7,500	12,000	4,500	72,000	60
(ii) L-19 Cabling and supplying electricity for electric fans	21	2,300	12,000	9,700	203,700	422
(iii) L-20 Supply of wall mounted electric fans.	05	6,000	12,000	6,000	30,000	100
					<u>305,700</u>	

- (e) Despite a sum of Rs. 10,000 had been obtained for the construction of a makeshift building for the employees to stay, such a building had not been constructed.
- (f) In spite of a sum of Rs. 20,000 paid to the contractor for the supply of warning signs and night lights under preliminaries, those items had not been supplied.

4.7 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Hospital as at 31 December 2014 had been 216 out of which, there had been 42 vacancies and a surplus of 03.
- (b) Even though 02 trainee Lab Technologists had been assigned for training at present, it was observed that their services could be obtained after a period of 03 years.

4.8 Utilization of Vehicles

An ambulance belonging to the Hospital had met with an accident on 12 June 2014. As the insurance policy had expired at the time of the accident, the loss had been met by hospital fund.

5. Accountability and Good Governance

5.1 Corporate Plan

According to Section 5.2 of the Guidelines for Good Governance as per Public Enterprises Circular No. PED/12 dated 02 June 2003, a corporate plan should consist of organization chart, potential and weaknesses of the Hospital, yardsticks for performance , and strategic plans regarding the time period stated in the plan. Nevertheless, the corporate plan presented for the Hospital had not contained the aforesaid features. The tasks to be achieved in each year had not specifically been mentioned in the strategic plan.

5.2 Internal Audit

The Hospital did not have its own Internal Audit Unit and the internal audit is carried out by the Internal Audit Unit of the Ministry of Health. The ministerial Internal Audit Unit had issued 03 audit queries by conducting audits in the year 2014.

5.3 Audit Committees

According to the Public Enterprises Circular No. 55 of 14 December 2010, the Audit Committee should meet at least once in 03 months. But only one meeting had been held for the year under review.

5.4 Budgetary Control

Variances ranging from 29 per cent to 874 per cent in 15 items of expenditure were observed between the budget and the actual expenditure. As such, it was observed that 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 Hospital Board from time to time. Special attention of the management is needed in respect of the following areas of control.

- (a) Drug Stores Control.
- (b) Establishment Activities.