

## **Lanka Hospitals Diagnostics (Pvt) Limited - 2017**

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The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Limited (“The Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, 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. My comments and observations on the performance of the company which I consider should be furnished to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view in accordance with the Sri Lanka Accounting Standards and for such internal control as the Board 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**

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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. 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 Company’s preparation and fair presentation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

## 2. Financial Statements

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### 2.1 Opinion

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The audit opinion of Lanka Hospitals Diagnostics (Pvt) Limited was issued by a Private Audit Firm-KPMG (Chartered Accountants), Since the Company has appointed KPMG in Annual General Meeting conducted on 28 June 2017. The KPMG has issued a Clear Opinion on March 28, 2018.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Lack of Evidence

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Out of the sample selected from debtors and creditors shown in the financial statements, the accuracy and existence of debtors and creditors amounting to Rs.10,236,012 and Rs.12,793,744 respectively could not be ascertained in audit due to unavailability of direct confirmation.

#### 2.2.2 Unreconciled Differences

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When compared with the confirmation received, differences were observed between the creditors balances shown in the general ledger and the balances confirmed by the respective parties. Details are as follows.

Name of the Creditor	Amount as per Ledger Rs.	Amount as per Confirmation Rs	Difference Rs.
Emar pharma (PVT) Ltd	3,303,730	2,793,635	510,095
J.L.Morison & Sons Ltd	21,408,782	21,585,601	176,819

### 2.3 Accounts Receivable and Payable

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Advance Prepayments amounting to Rs. 1,165,664 included in creditors' age analysis as at 31 December 2017 had been recognized as creditor balances.

### 2.4 Non - operating Accounts

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A total of balances of advance received and test charges payable amounting to Rs.259,872 had remained without being changed over a long period in the accounts and actions had not been taken to settle those balances even in the year under review.

### 3. Financial Review

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#### 3.1 Financial Result

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According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs.208,768,600 as compared with the corresponding pre-tax net profit of Rs. 265,688,811 of the Company for the preceding year, thus indicating the profit before taxation decreased by Rs. 56,920,211. The 21.4 per cent decrease of the profit before tax during the year, primarily due to the subdued performance of the Company.

#### 3.2 Analytical financial review

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##### Summary of the Financial Results

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The following table gives a summary of the financial results of the Company for the year under review and the preceding year.

	Year Ended 31 December	
	2017	2016
	'000	'000
	Rs.	Rs.
Revenue	1,156,505	984,358
Cost of Services	(582,489)	(418,234)
Gross Profit	574,016	566,124
Other Income	52,500	15,000
Administrative Expenses	(312,784)	(266,247)
Other Operating Expenses	(103,442)	(59,709)
Finance Income	50,927	25,506
Profit before taxation	208,769	265,689
Income tax expense	(36,897)	(16,057)
Profit for the year	171,872	249,631

#### **4. Operational Review**

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As a practice the Company use expired medicine for laboratory tests based on doctor's comments.

The Chairman had informed that expired stock items can be used after a technical validation and that was an industry practice and they have a sound Standard Operating Procedures (SOP) to be followed when they are using expired items.

Further, a provision of Rs.773,122 had been made in the Financial Statements since 31 December 2015.