

## **Lanka Hospital Corporation PLC – 2017**

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The audit of the financial statements of the Lanka Hospital Corporation PLC (“The Company”) and the consolidated financial statements of the company and its subsidiaries (“Group”) 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 Hospital Corporation PLC 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 28 March 2018.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Lack of Evidence**

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The accuracy and the existence of debtors and creditors aggregating Rs. 39,010,453 and Rs. 25,451,099 respectively could not be ascertained in audit, due to unavailability of direct confirmation.

### **2.3 Unreconciled Balances**

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The following observations are made.

- (a). Although a sum of Rs. 12,941,033 had been shown in the ledger account as payable to a creditor as at 31 December 2017, the balance confirmed by the respective creditor was Rs. 41,212,069. Hence a difference of Rs.28,271,036 was observed.
- (b). Although a sum of Rs.49,911,604 had been shown in the ledger accounts as receivable from a debtor as at 31 December 2017 ,the balance confirmed by the respective debtor was Rs. 49,815,576. Hence a difference of Rs. 96,028 was observed.
- (c). Although the ledger balance of prepayment as at 31 December 2017 was Rs. 66,678,662,as per the schedule it was Rs.59,927,474. Hence a difference of Rs. 6,751,188 was observed.
- (d). As per the Financial Statements E - Channeling Sales Receivable balance as at 31 December 2017 was Rs. 5,738,910 and as per the Hospital Information system it was Rs. 5,771,762. Hence a difference of Rs. 32,852 was observed in the audit.

## **2.4 Long Outstanding Provisions**

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A total balance of refundable deposits and advances amounting to Rs. 3,859,683 had been brought forward over a long period without being cleared.

## **2.5 Unresolved Audit Matters**

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The company had paid a sum of Rs.99, 300,000 as Strategic Doctor Payment for the consultants hired from some specialized areas during the year under review, while the company having specialized doctors in their cadre for the said relevant field.

The Chairman had comment on this issue as If hospital wants to recruit them as a full time employee it will cost even much more to the organization. The hospital has five consultants in staff cadre which comprise of one surgeon, two radiologists and two anesthetists. When considering the number of specialties in the medical field and the number of patients handled by the Lanka Hospitals it is not possible to run these operations only by one surgeon in the payroll. Anesthetists and Radiologists are providing supports to primary consultants. The total income hospital earns from these consultant in year 2017 amounting in to Rs.1.29 Bn.

## **2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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Contradictory to the provisions of the public enterprises circular PED 1/2015, fuel allowances had been granted by the Company to the Chief Executive Officer and Chief Operating Officer/ Chief Financial Officer exceeding the limits by 50 Litres and 35 Litres respectively.

However, the Chairman had informed that, the total remuneration is negotiated with the candidates including the fuel which should be par with amounts of similar categories of the company and those offered by other public listed companies.

## **3. Financial Review**

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### **3.1 Financial Result**

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According to the consolidated financial statements presented, the operations of the Company and the Group for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs.834,876,233 and Rs.922,047,400 respectively as compared with the corresponding pre-tax net profit of Rs. 826,755,121 and Rs. 1,081,453,938 of the Company and the Group respectively for the preceding year, thus indicating the group profit before taxation decreased by 14.7 per cent during the year, primarily due to the subdued performance of Lanka Hospital Diagnostics (Private) Limited.

At Company level, profit before taxation had increased marginally 1 per cent and group's profit for the year had decreased by 40.24 per cent, as a result of deferred tax adjustment of Rs. 274 Million due to changes in income tax rate to be effected from 1 April 2018. Further

the profit attributable to the equity holders of the parent company had decreased by Rs. 269 Million represents 69 per cent.

### 3.2 Analytical Financial Review

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#### 3.2.1 Summary of the Financial Results

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

	Year Ended 31 December			
	2017 '000		2016'000	
	Company Rs.	Group Rs.	Company Rs.	Group Rs.
Revenue	5,225,553	6,382,058	4,902,083	5,886,441
Cost of services	(2,936,768)	(3,519,257)	(2,680,770)	(3,099,004)
Gross profit	2,288,785	2,862,801	2,221,313	2,787,437
Other Income	161,467	51,981	58,468	52,543
Administrative Expenses	(1,232,814)	(1,549,695)	(1,116,309)	(1,379,607)
Other operating Expenses	(539,116)	(636,519)	(502,043)	(561,752)
Change in Fair Value Of Investment Property	14,000	-	8,000	-
Finance Income	142,553	193,480	157,326	182,832
Profit before taxation	834,875	922,048	826,755	1,081,453
Income tax expense	(304,604)	(341,197)	(93,371)	(109,429)
Profit for the year	530,271	580,851	733,384	972,024

### 4. Operational Review

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#### 4.1 Cash at Bank

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Unresolved bank errors amounting Rs.48,418 had been included in the bank reconciliation statements over a long period.

## 4.2 Revenue Reconciliation with VAT returns

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The company had not reconciled total revenue shown in the financial statements with the total supply shown in VAT returns.

However the Chairman of the Company had informed that, because, there are two components in the VAT liable supply mainly named as bed rentals & professional charges. But from the hospital revenue, the VAT liability is recognized only on bed rentals whereas consultant fees are not part of hospital revenue and the hospital acts as a

collector for both doctor and the Department of Inland Revenue. But in the VAT return they had to include the Value of the total Supply and therefore they had to consider the total of the professional charges as well. Reconciliation of these two amounts is not practicable since in some instances they had revenue sharing agreements with consultants (Eg: Dental/ Retainer fees). This fact had been also agreed & accepted by the Department of Inland Revenue at the time of submitting the annual return for year of assessment 2016 and during the Private Healthcare Association meeting held with Commissioner General of Inland Revenue on 09 January 2018.

However Audit evidence had not been made available to audit to verify the acceptance and agreement with Inland Revenue Department.