

Sri Jayawardenapura General Hospital Board - 2017

The audit of financial statements of the Sri Jayawardenapura General Hospital Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, and the statement 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 Sub-section (3) of Section 12 of the Sri Jayawardenapura General Hospital Board Act, No.54 of 1983. 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 control 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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result, of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement.

2. Financial statements

2.1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2. Comments on Financial Statements

2.2.1 Sri Lank Public Sector Accounting Standards

The following observations are made.

(a) Sri Lank Public Sector Accounting Standard 01

- (i) When preparing financial statements, an assessment of an entity's ability to continue as a going concern had not been made in terms of paragraph 38 of the standard and the measurement basis used in preparing the financial statements had not been disclosed in terms of paragraph 132(c) of the standard.
- (ii) In terms of paragraph 48 of the standard, assets and liabilities should not be offset unless required or permitted by a Sri Lank Public Sector Accounting Standard. However, the bank overdraft of Rs.448,671 existed as at 31 December 2017 from the total balance of cash and cash equivalent amounting to Rs.59,215,119 and the credit balances of Rs.27,373,267 in the Hospital charges debtors accounts from the debit balances of Rs.286,765,620 in the Hospital charges debtors accounts had been offset and shown the net balances in the financial statements.
- (iii) Even though, the reserves, including the description of the nature and purpose of each reserve within the equity capital should be disclosed in the financial statements in terms of paragraph 95(c) of the standard, particulars of the capital reserve of Rs.2,280,000 as at 31 December 2017 had not been so disclosed.
- (iv) In terms of paragraph 108 of the standard, an entity should present either on the face of the statement of financial position or in the notes, a sub-classification of total revenue classified in a manner appropriate to the entity's operations. Nevertheless, the revenue of Rs.2,100,844,980 received by the Hospital in respect of patients hospitality service had not been presented being so classified.
- (v) In terms of paragraph 132 of the standard, the measurement basis used in preparing the financial statements should be disclosed but the measurement basis for the capital works in progress totalling Rs.432,718,789 as at 31 December 2017 had not been disclosed.
- (vi) Even though, the value of closing stock amounting to Rs.359,565,291 as at 31 December 2017 had been valued at cost or net realisable value whichever is lower, such stock items had not been separately disclosed.

(b) Sri Lank Public Sector Accounting Standard 07

- (i) As the useful life of non-current assets had not been reviewed annually in terms of paragraph 65 of the standard, the fixed assets costing Rs.1,968,854,481 had been fully depreciated but still being used. Accordingly, the estimated error had not been revised in terms of Sri Lanka Public Sector Accounting Standard 3.
- (ii) In terms of paragraph 69 of the standard, depreciation of an asset begins when it is available for use and when it is in the location and condition necessary for it to be capable of operating. On the contrary, non-depreciation in the year of purchase or acquisition of assets had been disclosed as the accounting policy.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The unidentified debit balance of Rs.16,271,838 in the Hospital charges control account as at 31 December 2017 had been transferred to the accommodation charges account without taking action to find how it was created and to correct it.
- (b) Drugs costing Rs.31,444,099 received from the Medical Supplies Division as donations during the year under review and the value of 491 items of equipment received as donations in the year under review and the previous year had not been brought to accounts.
- (c) In place of opening balances of 9 stock accounts relating to drugs and surgical materials, dressings, consumables, radioactive materials, laboratory materials, stationery and general stores materials as at 01 January 2017, the opening balances of such accounts existed as at 01 January 2016 had been erroneously posted due to computer system errors and as a result, those stock account had been over debited by Rs.51,606,864. Without being rectified the overstated stock accounts, a same value had been transferred to the relevant purchases accounts from each stock account.
- (d) A sum of Rs.35,700,014 payable in respect of medical supplies obtained from the Medical Supplies Division in the previous year, existed in the creditors Account maintained for the Medical Supplies Division had been again debited to the Trade creditors control account and credited to a separate creditors control account without eliminating from the Medical supplies Account by journal entries. As a result, the creditors balance had been overstated by a similar value.
- (e) An advance of Rs.23,284,960 paid as a part of the value of asset in the year under review in respect of purchase of medical equipment for the surgery and furniture for the laboratory had been debited to the respective assets accounts instead of being debited to the advance account.

- (f) A sum of Rs.165,183 spent for the purchase of 2 items of fixed assets during the year under review had been debited to the sundry expenses account, instead of being debited to the respective assets accounts.
- (g) In making payments to 7 medical equipment suppliers in 10 occasions, demurrages charge of Rs.2,875,084 recovered as per the agreements had not been brought to accounts.
- (h) Even though, medical equipment, electric stairs, generators, building materials, furniture and equipment, wheel chairs and other equipment disposed of from 16 Divisions of the Hospital during the year under review had been sold for Rs.4,391,608, action had not been taken to eliminate the cost of those assets and their accumulated depreciations from the respective accounts after being identified.
- (i) Even though, the rate depreciation on building where male nurses hostel was located, identified as other buildings in the financial statements was 5 per cent it had been depreciated at 2 per cent only and as such the depreciation for the year under review had been understated by Rs.283,746.
- (j) Employees provident Fund contribution of Rs.183,144 deducted from the salaries of 50 students nurses who had not got permanent appointments had been refunded to them but that amount had been debited to the salaries advance account instead of being debited to the salaries account.
- (k) Even though, the error arisen in under accounting of depreciation on buildings and furniture and equipment in the preceding year amounting to Rs.93,756 had been rectified in the current year, the capital grants accounts had not been amortised by a similar amount.
- (l) Distress loan balances totalling Rs.211,022 of 2 employees which had been fully settled as at 31 December 2017 had been stated as further receivable loans and the distress loan balances totalling Rs.245,396 of another 2 employees which had not been settled had not been shown in the accounts as receivable loans.
- (m) Electricity charges of Rs.81,848 receivables as at 31 December 2017 in respect of renting parts of the hospital premises, sales commissions of Rs.146,041 receivable as at that date and a sum of Rs.628,460 receivable as at that date from other 9 types of revenue items had not been brought to accounts.
- (n) Provisions of Rs.1,004,992 for gratuities had been made in the year under review in respect of 3 employees who had retired and left the service in the year 2014 and prior years. Even though, gratuities of Rs.599,247 had been paid in the year 2015 to another 3 employees, it had been shown in the accounts as further payable.
- (o) Distress loan of Rs.96,069 recovered when paying gratuities to an employee had not been brought to accounts.

- (p) Without being specifically recognised and accounted the hospital charges and the professional charges separately, included in the credit letters forwarded by insurance companies and other entities, who were the hospital charges debtors, a sum of Rs.9,163,244 had been debited to the Hospital charges control account and credited to the payment of professional charges account.
- (q) According to the physical stock verification reports conducted as at 31 December 2017 action had been taken to write off 17,472 units of expired stock costing Rs.6,520,276 against the profit. According to the computer software, used for the accounting of stocks, the expired stock units as at that date amounted to 43,385 and the cost thereof amounted to Rs.3,848,630, thus the difference was Rs.2,671,646 for which reasons had not been identified.

2.2.3 Unexplained Differences

The following observations are made.

A difference totalling Rs.261,789,518 between the value as per the financial statements and the value as per files and registers presented to audit relating to the following items were observed but the reasons for differences were not explained.

	Description	Account/ File/ register presented to audit	Value as per financial statements	Value as per the account file/ register	Difference
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			Rs.	Rs.	Rs.
(i)	Hospital charges debtor as at 31 December 2017	List of Individual debtors	132,325,102	134,958,121	2,633,019
(ii)	Trade creditors as at 31 December 2017	List of individual creditors	477,920,039	516,627,485	38,707,446
(iii)	Balance stock as at 31 December 2017	Physical verification reports	364,603,053	365,687,748	1,084,695
(iv)	Performance security deposits as at 31 December 2017	Schedule	1,463,230	1,685,195	221,965
(v)	Cost of fixed assets purchased and acquired during the year under review	(i) Computer printed schedule	762,668,493	675,759,711	104,908,782
		(ii) Schedule indicating particulars of GRNN	762,668,493	648,847,810	113,820,683

(vi)	Festival advances as at 31 December 2017	Detailed festival advance report	488,455	302,500	185,955
(vii)	Ambulance charges revenue	Revenue classification report, privately ambulance reservation register and private visiting register	2,998,989	2,772,016	226,973

2.2.4 Lack of Evidence for Audit

Due to non-availability of evidence indicated against the following items of account to audit they could not be satisfactorily vouched or accepted in audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Sundry deposits	4,189,582	Registers to establish the correctness of sundry deposits older than 20 years.
(b) Service Charges	511,644	Approval of the Board of Directors relating to the recovery of only 0.15 per cent of the professional fees as hospital charges.
(c) As at 31 December 2017, Debtors Creditors	128,187,769 477,920,038	Debtors and creditors age analysis prepared in a manner to disclose outstanding periods appropriately.
(d) Professional Charges, Recoveries Payments	356,017,257 289,538,096	Recover and payment of professional charges were made through the 'Datamation Software System' but particulars of professional charges due, professional charges payable and professional charges paid.
(e) Error correction of Hospital charges Revenue	1,010,158,314 1,957,650,245	Journal entries with a formal approval for the 2 error correction transactions.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to settle 15 sundry creditors balances totalling Rs.4,572,784 older than 5 years as at 31 December 2017, 7 performance bond deposits valued at Rs.800,907 and the payable professional charges of Rs.3,616,142 or to account being identified as revenue.

- (b) Action had not been taken recover or to write off after obtaining a proper approval from the accounts, the hospital charges of Rs.2,438,514 and Rs.1,698,819 due from the Sri Lanka Army and Sri Lanka Air Force respectively receivable prior to the year 2009.
- (c) Action had not been taken to get the salaries of Rs.1,112,280 and Rs.3,312,066 paid to the intern medical officers in the years 2013 and 2016 reimbursed from the Ministry of Health, Nutrition and Indigenous Medicine even by 30 June 2018.
- (d) A salary advance of Rs.87,000 paid to a medical officer in the year 2015 had not been settled even by the end of the year under review.

2.4 Non-compliance with laws, rules, regulations and management decisions

Non-compliances with laws, rules, regulations and management decisions are given below.

Reference to Laws, rules etc. -----	Non-compliance -----
(a) Public contract agreement Act No.3 of 1987.	According to the Act, the contractors present for contracts more than Rs.5 million, he and that public contract agreement should be registered under the Public Contract Registrar. Nevertheless, the contractors who had been awarded 3 construction contracts the total cost of which amounted to Rs.175,827,708 and a contract, the total cost of which amounted to Rs.58,562,300 awarded for the purchase of a medical instrument had not registered those contract agreements.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulations 103(1)(b) and 104(1)(a)	Preliminary investigations had not been conducted in respect of 8 vehicle accidents occurred in the years 2016 and 2017 and not determined the responsible persons.
(ii) Financial Regulation 389(a) and (b)	Cheques must not be handed over to a payee unless he is properly identified. Nevertheless, cheques valued at Rs.10,074,565 as professional charges had been handed over to 58 Medical Officers during the month of January 2017 without being ensured their identify.

(iii) Financial Regulation 756(1)

Even though, on or about 15th of December each year a Board of Survey should be appointed for the verification of stores, and where necessary for reporting on unserviceable stores held in each divisions and branches, the Board of Survey functions relating to the year 2017 had not been conducted even by 31 July 2018.

(d) Budget Circular No.133(1) dated 09 March 2007 and Public Administration Circular No.30/2008 dated 31 December 2008.

In terms of the circular instructions, the maximum distress loan to be granted to an employee had been limited to Rs.250,000. Nevertheless, distress loans ranging from Rs.258,114 to Rs.399,346 had been issued to 106 employees during 9 months ended 30 September 2017 from January 2017 and the total value, exceeding the maximum loan entitlement amounted to Rs.6,758,503.

(e) Public Enterprises Circular No.PED/1/2015 of 25 May 2015.

Even though, the officers who have been allocated an official vehicle or who obtain transport allowance including the fuel allowance should not use pool vehicles, 6 officers in the hospital had used 6 pool vehicles for travelling 2,191 km.

(f) Treasury Circular No.842 of 19 December 1978.

A register of fixed assets had not been prepared in accordance with the relevant circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board had resulted in as deficit of Rs.149,619,386 for the year under review ended 31 December, as compared with the deficit of Rs.175,818,975 for the preceding year, thus improving the financial result of the year under review by Rs.26,199,589 as compared with the preceding year. Even though the operating expenses of the hospital of the year under review had increased by Rs.306,785,959, as compared with that of the preceding year, the revenue of the year had also increased by Rs.340,926,448 and this had mainly attributed for this improvement.

In the analysis of financial results of the year under review and the preceding 4 years, surpluses of Rs.92,286,361 and Rs.720,613,254 had indicated in the years 2013 and 2014 respectively, and deficit of Rs.352,618,182, Rs.175,818,975 and Rs.149,619,386 had indicated in the years from 2015 to 2017. However, employees remunerations, government taxes and depreciation on non-current assets had been re-adjusted to the financial results, the contribution of the Board amounting to Rs.1,026,310,304 in the year 2013 had improved up to Rs.1,477,876,821 by the year under review being fluctuated.

4. Operating Review

4.1 Performance

4.1.1 Planning

According to the action plan prepared for the year under review, sums of Rs.1,300 million, Rs.68 million and Rs.85 million had been provided for the construction of paying ward complex, male nurses quarters and workshop building respectively. However, sums of Rs.750 million, Rs.75 million and Rs.105 million had only been provided in the Master Procurement Plan.

4.1.2 Operations and Review

In the examination of the action plan prepared for the year under review and the physical and financial progress report, it was observed that the procurement functions of 3 projects, the estimated value totalling Rs.700 million had delayed and due to weaknesses in the contract process of 2 projects totalling Rs.153 million, the contract period had delayed for periods ranging from 01 month to 10 month as per the relevant agreements.

4.2 Management Activities

The Hospital charges revenue for the year ended 31 December 2017 amounted to Rs.2,100,844,980. However, except drugs and surgical material charges, a pricing committee had not been appointed to determine the other charges and the manner in determining other charges or basis had not been included in the Computer Software System. Similarly, although hospital charges such as medical operations, various types of tests and other service charges had been revised from time to time, a formal approval had not been obtained therefor.

4.3 Operating Activities

The following observations are made.

- (a) An instruction manual, containing an appropriate methodology and procedures for this Hospital, accorded with the General Circular No.01-21/2015 dated 28 May 2015 issued by the Ministry of Health, Nutrition and Indigenous Medicine in respect of the supply of raw foods to the Hospitals and to provide foods to Junior Staff, had not been prepared and get it approved by the Board of Directors. The following observations are made in respect of the supply of raw foods.
 - (i) The Weekly food program prepared by the Head of Institution to get the assistance of the Food Management Committee for its preparation had not been given to the relevant Divisions and action had not been taken to prepare the monthly supply requirement of raw foods accordingly.

- (ii) Action had not been taken by the Doctors in each ward to note suitable dietary circle of each patient in terms of extra foods of the patient in his bed head ticket and to certify it personally.
 - (iii) At the first day of each month, in respect of all residential patients, functions such as preparation of new dietary meal record, computation of number of meals required per day by summarizing dietary meals of each patient and comparison with number of patients available as at that date, adding extra food record every day posting summaries on such food in the reconciliation etc. had not been performed.
 - (iv) Registers to establish whether orders had been placed by reducing a certain percentage of raw food having being examined the wastage of balance cooked foods, had not been maintained.
 - (v) Filed documents and information to establish whether random sudden tests were conducted and taken action in respect of weaknesses observed thereon were not made available.
 - (vi) Registers to ensure whether samples were shown before being distributed cooked foods, checking that hospital employees had taken foods by producing food coupons and whether prescribed quantity of foods had been given to employees the corroborative records had not been maintained.
 - (vii) A food management committee for the management of ordering, receiving, cooking and distribution of raw food stuff in a manner, incurring a minimum cost had not been actively in operation.
 - (viii) Appropriate specimen forms had not been introduced for ordering accounting, documentation and control of food stuff.
- (b) The clinical waste incinerator purchased on 30 November 2016, incurring an expenditure of Rs.23,544,099 had been given on lease rent to a private entity since 01 August 2017 at a monthly rental of Rs.900,000 for 3 years. The following observations are made in this connection.
- (i) Without following the tender procedures as stated in Regulation 774 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, the entity to which the machine was given on rent had been selected.
 - (ii) According to the agreement entered into on 28 July 2017, that entity should pay a monthly rental of Rs.900,000 to the hospital but any money whatsoever had not been recovered from 01 August 2017 to 30 June 2018.
 - (iii) The cost of 3,644 litres of kerosene costing Rs.174,902 which had been pumped to the machine at the time of handing over to the contractor had not been recovered from him.

- (iv) The number of clinical waste disposed of by the hospital daily had been about 250 kg to 300 kg but without doing proper study thereon, a machine with daily capacity of about 1200 kg had been purchased. The quantity of waste burnt during the period of 13 months from 01 December 2016 to 31 December 2017 had been only 184,187 kg and as such only 39 per cent of the total machine capacity had been utilized. Even though, the machine had been rented by expecting to combust clinical waste obtained from other private Hospitals and Health entities, the intended purpose was not achieved.

4.4 Personnel Administration

The following observations are made.

- (a) Action had not been taken to prepare and get a formal scheme of recruitment and promotion approved in respect of recruiting persons for the posts of the hospital, promotions and grading, even up to 31 December 2017.
- (b) In terms of the approval of the Board of Directors dated 22 May 2015, an IT Consultant had been recruited on assignment basis since 08 June 2015 and a total sum of Rs.3,720,000 had been paid as allowances at Rs.120,000 per month during the period up to 31 December 2017.

The following observations are made in this connection.

- (i) According to the relevant letter of appointment, this officer should come to the hospital and work for 3 days a week between the period of 2 to 4 hours a day and the monthly allowance should be paid after getting confirmed by the Supervising Officer that he had engaged in service and the expected service had been obtained. However, without getting confirmed the attendance by written evidence and got the relevant service performed, allowances had been paid.
- (ii) According to the letter of appointment, he should have performed such duties as the improvement of the existing information technology system by precluding system weaknesses, assisting to operate 'Systolic and Accpac' Computer Software satisfactorily in respect of accounting and billing hospital charges, rendition of deficiencies identified therein and reports on solutions for those deficiencies monthly as required by management. But, it was revealed that no any such reports whatsoever had been presented.
- (iii) The first appointment had been given for 6 months and the service period had been extended from 6 months to 6 months subsequently. However, it was not established in audit that he had identified system faults in respect of accounting and billing and presented solutions for faults.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

The Hospital was not aware about the Circular No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the 2030 'Agenda' of the United Nations on Sustainable Development. As a result, action had not been taken to identify Sustainable Development Goals, targets and turning points to achieve those targets and indicators to measure the reaching of those targets, in respect of functions coming under the purview of its scope.

6. Accountability and Good Governance

6.1 Procurements and Contract Process

6.1.1 Procurements

- (a) The contract for the purchase of 5 electric bed Lifts, the contract value of which amounted to Rs.53,833,744 awarded to a private company in the previous year and 83 per cent of the contract sum amounting to Rs.44,618,959 had been paid on 17 February 2017. The following observations are made in this connection.
- (i) Remarking that the old 5 electric lifts, with operational condition was defective, they had been disconnected and removed. However, the recommendation of a Board of Survey appointed including a technical officer for such removal had not been obtained in terms of Financial Regulation 770.
 - (ii) In terms of Guideline 6.3.6 of the Government Procurement Guidelines relating to the purchase of this lift, bid opening functions should be recorded in a specimen form. However, a specimen form had not been used therefor and the bid opening record maintained therefor had not been signed by any member of the bid opening committee.
 - (iii) According to the specifications included in the bid documents, a performance certificate in respect of the utilisation of relevant lifts externally from the country of manufacture and a test report relevant to the entire machine obtained from a recognised independent testing authority had not been rendered by the bidder but the bidder had been selected disregarding that requirement.
 - (iv) Even though, within 14 days since the date of awarding the contract and before the commencement of works, the bidder should present the working drawings for the approval of the Electrical Engineer as stated in the Technical specifications, that requirement had not been fulfilled.

- (v) As stated in the technical specifications, before being despatched lift materials from the factory of the relevant manufacturing entity, two nominated inspectors should be given a factory inspection visit for the inspection of quality assurance of machine components. However, after 9 months of the receipt of lift materials to the hospital, that visit had been given and as such the anticipated objectives were not achieved by such a visit.
 - (vi) As agreed by the bidder, all 5 lifts should be supplied and installed by 08 April 2017 being elapsed 8 months from 08 August 2016, the date of issue of purchase order. Nevertheless, 3 lifts of them had not been installed and issued the handing over certificate even by 31 August 2018.
Further, the inter phone system facilities between the main control room and the lift cabin had not been provided. In addition, the demurrage charges for a period of 1 year and 4 months could not be recovered as the demurrage condition had not been included in the bid conditions.
 - (vii) In terms of specification No.14 stated in the bid documents, the width of a lift cabin should be 1,500 mm. but the width of lift cabins bearing Nos.1, 2, 3 and 4 had been only about 1,200 mm and the physical verification observed that the width of the lift cabin No.5 had only been about 1,400 mm. The responsibility of the certification of these actual measurements obtained by auditors had been evaded by the maintenance Engineer of the Hospital.
 - (viii) Even though, the contractor had agreed to offer 2 years free of charge maintenance period, it was established that the supplier had not carried out proper services when malfunctioned the machines in several instances after being installed.
- (b) A digital Mammography machine had been purchased in the year under review, incurring an expenditure of Rs.58,525,000 and the matters observed in this regard are given below.
- (i) In terms of guideline 5.3.2 of the government procurement guidelines, the invitation for calling for bids should be published in a manner, inclusive of appropriate and relevant basic information required by the bidder enabling him to prepare bids, including the requirements on criteria and qualifications as to ensure directly the appropriateness to be available with the successful bidder. Nevertheless, bid invitation had been published only for the supply of machine instead of publishing all functions such as supply, install and maintenance.
 - (ii) In terms of guideline 6.3.6 of the government procurement guidelines, the bid opening functions should be recorded in a specific form but a specific form had not been used therefore and the signatures of the bidders or their representatives had not been obtained for the bid opening record maintained.

- (iii) Even though, a table showing the compliance of all bidders with major provisions in the technical specifications should be prepared and presented to the procurement committee by the Technical Evaluation Committee in terms of guideline 7.11.1 of the government procurement guidelines, action had not been taken accordingly.
 - (iv) The bid presented by the selected bidder had included the foreign and local training to be given to the relevant officers but such a training had not been given even by 28 February 2018, though the machine had been handed over to the Hospital on 10 February 2017. However, the total contract value had been paid to the contractor.
 - (v) As the audit revealed that this machine could be able to do about 20 breast cancer tests per day, about 3,200 tests could have been carried out during the period of 8 months from 23 June 2017 to 28 February 2018 when calculated as considered 20 working days per month. However, only 449 tests had been carried out during that period and as such the capacity utilisation of this machine had been at a low level of about 14 per cent.
- (c) A flow cytometer machine enabling to identify blood cancer had been purchased in the year under review by incurring an expenditure of Rs.21,450,000 and the matters observed in this connection are given below.
- (i) Even though, the estimated value of this machine included in the medical equipment list, expected to be purchased in the year 2016 amounted to Rs.8 million, the actual expenditure incurred was Rs.21.45 million, thus exceeding the estimated amount by 168 per cent.
 - (ii) In terms of general condition No.(1) relating to the specification of the machine, the registration certificate of the National Drugs Regulatory Authority relating to the type or category of the machine supplied by the bidder should be submitted. However, irrespective of the non-remission of that certificate, the contract had been awarded.
 - (iii) Even though, both bidders who had submitted bids had presented bids in respect of machines agreed upon with the crucial requirements specifications, the bid presented the lowest price had been rejected stating that a machine supplied before had become malfunctioned. However, it was revealed in audit that such a malfunction had not occurred. Similarly, the contract had been awarded to the bidder who had quoted high price of cost of the machine and the maintenance cost by Rs.10,250,646 without being looked into the bidders pre-allegations.
 - (iv) It was revealed in audit that this type of blood cancer diagnosed by this machine was not reported largely in Sri Lanka and only 32 tests had been carried out during the period of 14 months from 01 March 2017 to 30 April 2018, and no any tests whatsoever had been carried out in certain months.

- (v) The audit revealed that 42 antibody vials costing Rs.4,608,158 used for this machine were available in the relevant Division and it could do 3,390 test occasions, and as such it was observed that the machine was under-utilised condition. As a result, 38 vials costing Rs.4,319,196 had expired even by 30 June 2018.

- (d) The contract agreement for the supply of fish to the hospital for the year under review had been signed on 04 January 2017, and the contract value amounted to Rs.25,950,240. The following observations are made in this regard.
 - (i) The preparation of the invitation for the examination of pre-qualification of bidders and their review and approval, preparation of bid documents drafts including specifications and their review had not been submitted to the Technical Evaluation Committee for approval in terms of guideline 2.3.2(b) and (c) of the government procurement guidelines.
 - (ii) In terms of guideline 2.11.3 of the government procurement guidelines, procurement committee reports and Technical Evaluation Committee report had not been recorded in a specific format.
 - (iii) In terms of guideline 2.12(a) of the government procurement guidelines, a declaration of confidentiality and impartiality had not been given by the members of the procurement committee and the Technical Evaluation Committee.
 - (iv) A total cost estimate relevant to all food supplies requirements had not been prepared in terms of guideline 4.3.1(a) of the procurement guidelines.
 - (v) The standard bid calling documents in terms of guideline 5.3.1(a) to (d) of government procurement guidelines had not been used by the Hospital Board and the suitability of bid documents used in place of them had not been checked and approved by the procurement committee, and the Technical Evaluation Committee.
 - (vi) In terms of guideline 5.3.2 of the government procurement guidelines, the invitation for calling for had not been prepared in a manner, inclusive of appropriate and relevant basic information required by the bidder in order to prepare bids including the requirements on criteria and qualifications ensuring directly the appropriateness to be available with the successful bidder.
 - (vii) According to the guideline 7.10 of the procurement guidelines, criteria for the checking of post qualifications should be clearly stated in the bid calling documents. However, criteria such as similar service supplies for the last 3 years, financial statements data previous performance of hospital supplies etc. had not been included in the bid calling documents.

- (e) In addition, to the list of foods, the monthly value of which amounted to Rs.7,620,442 approved by the Procurement Committee of the Ministry of Health, Nutrition and Indigenous Medicine, the contract for the purchase of 82 extra food items valued at Rs.2,605,056 had been awarded on 27 September 2016 to the supplier who supplied fish and raw food stuff himself without calling for competitive bids. In terms of Guideline 5.4.10 of the government procurement guidelines, a performance bond valued at 10 per cent of the annual contract value had not been obtained and a formal agreement had not been entered into with the contractor in terms of guideline 8.9.1.
- (f) A cardiac catheterization laboratory machine had been purchased in the year under review, incurring an expenditure of Rs.130,380,000, and the matters observed in that connection are given below.
- (i) Bid Evaluation had not been completed within the period stated in the procurement time table in terms of guideline 7.4.1 of the government procurement guidelines.
- (ii) The Procurement Committee had not cautiously considered in respect of the recommendation of the technical evaluation committee in terms of guideline 8.1.1 of the government procurement guidelines.
- (iii) In terms of guideline 8.5.1 of the government procurement guidelines, the other bidder had not been informed that the successful bidder had been selected in accordance with the Decision of the Ministry Procurement Committee and representations against it if any, could be presented.
- (iv) A formal letter of acceptance had not been issued to the bidder immediately the bid had been accepted in terms of guideline 8.9.1 of the government procurement guidelines.
- (v) The amount of Rs.3,030,000 allocated for giving a training for 5 officers within the country of manufacture of the machine in respect of the operation of the machine had been paid to the contractor on 30 April 2018, but such a training had not been given even up to the date of this report.
- (vi) In terms of bid documents presented by the selected bidder, the machine should be supplied and installed in the hospital by 28 March 2017. However, as the hospital had not taken action to make the walls of the premises proposed to be installed this machine with a thickness of 300 mm, in terms of the regulations of the Sri Lanka Atomic Energy Regulatory Council, the installation of the machine had delayed by 4 months up to 18 August 2017 and a sum of Rs.478,980 had to be paid to the supplier therefore.
- (g) Fourteen containers had been taken on rent in the year under review by incurring an expenditure of Rs.3,903,000 but an agreement had not been entered into with the contractor in terms of guideline 8.9.1 of the government procurement guidelines.

6.1.2 Weaknesses in Contract Administration

The contract for the construction of workshop and office for the garden and cleaning service staff with the contract value of Rs.87,019,408, exclusive of taxes had been awarded on 09 November 2016. The following observations are made in this connection.

- (a) Even though, the bid opening activities should be recorded in a specimen form in terms of guideline 6.3.6 of the government procurement guidelines, a specimen form had not been used therefor. Only the name of the bidder had been included in the bid opening record used and the particulars such as bid value, prices of alternate bids, value of bid bond etc. had not been included. Furthermore, only one member of the bid opening committee had signed that record.
- (b) Even though, all the bids received should be subjected to primary bid evaluation in terms of guideline 7.8 of the government procurement guidelines, only 4 bids submitted lowest quotations out of 10 bids received had been subjected for evaluation.
- (c) If the service of a consultant is obtained for bid evaluation, it should be done under the supervision and guidance of the Technical Evaluation Committee in terms of guideline 7.3 of the government procurement guidelines, but the supervision and the guidance had not been given for the evaluation made by the consultation entity. The Technical Evaluation Committee had presented their recommendations, based on the evaluation report presented by the consultation entity.
- (d) In terms of instructions for bidders stated in No.4.1 (j) of bid documents, the selected bidder with the 3rd minimum price had not presented confirmation documents ensuring that working capital requirement for works in hand could be fulfilled and the details of works being carried out at present. Similarly, it was established that the bidders financial position was not satisfactory according to the financial statements presented for the last 5 years by the bidder but, disregarding that fact, the technical evaluation committee had recommended to select this bidder.
- (e) In terms of guideline 8.9.1 of the government procurement guidelines, an agreement should be entered into by both parties immediately since the issue of the contract awarding letter but the agreement had been signed after 219 days, since the date of awarding the contract.
- (f) According to the condition No.4.14 of the contract stated in bid documents, the monthly progress reports had not been presented by the contractor. Even though, it was planned to commence the contract on 30 January 2017 and to complete on 29 April 2018, due to failure in supplying employees specified and materials with standard from the contractor, the performance of the contract could not be achieved as expected and only the works up to the slab level of the first floor had been completed by 06 April 2018.

- (g) According to the contract data No.14.5 stated in the bid documents, the minimum value of an interim bill which can be payable amounted to Rs.3,200,000, but payments had been made for 2 interim bills, valued at Rs.1,733,666 and Rs.1,708,771 presented by the contractor.

6.2 Unresolved audit paragraphs

One occasion in which the directives given by the committee on Public Enterprises on 09 June 2017 was not accomplished is given below.

Even though, the Committee on Public Enterprises had directed that the approval for the scheme of recruitment be obtained within 2 months after doing necessary amendments required for the qualifications of the posts of Director, Deputy Director and Accountant, such approval had not been obtained even by the date of this report.

7. Systems and Controls

Weaknesses in systems and controls were brought to the attention of the Chairmen of the Hospital Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of systems and control	Observations
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(a) Fixed Assets Control	Inclusion of particulars only in respect of fixed assets purchased during the year, in the computer printed register of fixed assets presented to audit and action had not been taken to document all fixed assets after being physically identified and assessed, the values.
(b) Stock Control	Obsolete stock not correctly identified.
(c) Personnel Administration	Action not taken to prepare the formal scheme of recruitment and get it approved.
(d) Contract Administration	Action not taken to get the contract works done without delay and action not taken in terms of certain provisions in the government procurement guidelines.
(e) Purchases Control	Purchase of medical equipment made without being identified the requirements appropriately, action not taken to get the service of the suppliers in terms of conditions of the agreements.
(f) Accounting and use of Computer Software	(i) Journal entry No, description of transaction, description of double entry not posted to the ledger accounts available.

- (ii) Approval for the 3 journal entries totalling Rs.24,125,003 as at 31 December 2017 not obtained.
 - (iii) Existence of credit balances in 27 debtors accounts totalling Rs.27,373,267 as at 31 December 2017.
 - (iv) Existence of debit balances totalling Rs.21,567,527 in 26 creditors account as at 31 December 2017.
 - (v) Non-introduction of separately ledger accounts codes for the accounting of various types of revenue within the “Systolic” computer software, established for accounting hospital charges revenue, accounting various types of revenue under each revenue ledger accounts code, preparation of Trial balance in taking several such ledger accounts balances and that computer system did not identify a methodology in accounting the refund of hospital charges.
 - (vi) It was impossible to obtain Hospital charges and professional charges separately recovered from each patients being treated in paying words from the ‘Systolic’ computer system and a system for accounting professional charges and a proper control system not introduced.
 - (vii) Only a sum of Rs.511,644 out of the professional charges of Rs.341,094,920 recovered from the patients on behalf of Doctors and other staff in the year under review, had been credited to the revenue of the Hospital and a cost analysis in respect of the employment of staff for the recovery and refund of professional charges, cost of operation of computer software system and bank accounts and other overhead cost had not been carried out.
- (g) Financial Control ‘Cancelled’ seal had not been kept on the face of the cancelled cheques.
- (h) Vehicles Control Fuel in the vehicles not tested in accordance with circular instructions.