

Wijaya Kumaratunga Memorial Hospital Board – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Wijaya Kumaratunga Memorial Hospital Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Hospital Board as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in the paragraphs 1.5 of this report.

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 qualified 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 Public Sector 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 Hospital Board'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 Hospital Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Hospital Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

1.4 Auditor's Responsibility for the Audit of 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 scepticism 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 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 Hospital Board'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 Hospital Board'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 Hospital Board 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 Hospital Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Hospital Board has complied with applicable written law, or other general or special directions issued by the governing body of the Hospital Board;
- Whether the Hospital Board has performed according to its powers, functions and duties; and
- Whether the resources of the Hospital Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) In terms of the paragraph 47 of the Sri Lanka Public Sector Accounting Standard 3, material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred. However without doing so, a sum of Rs.2.75 million had been adjusted to the cumulative deficit which had been brought forward as at 01 January 2019 as prior year adjustment.	This error will be rectified in the preparation of financial statements for the year 2020.	Action in terms of the Standard should be taken to rectify those errors and the financial statements for the year 2020 should be prepared and presented accordingly.
(b) In terms of the paragraph 21 of the Sri Lanka Public Sector Accounting Standard 7, expenditure on repairs and maintenance incurred when maintaining buildings and property should be written off as recurrent	It had been identified as capital expenditure due to the reasons such as the provisions obtained by estimating certain expenditures incurred for	-do-

expenditure against the revenue. Nevertheless, expenditure of recurrent nature amounting to Rs.7.11 million incurred for repairing buildings has been capitalized and as such, the deficit of the year had been understated in the financial statements by a similar amount.

repairing buildings under the capital provisions, increase in the cost of the asset owing to the expenditure and exceeding its life by 3 and 5 years.

- (c) In terms of the paragraph 43 of the Sri Lanka Public Sector Accounting Standard 7, an appraisal of the value of an asset should be undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. Nevertheless, the value of 5 motor vehicles which were appraised by a valuer who does not have recognized professional qualifications, had been shown as Rs.32.60 million in the financial statements. As such, the appraised value could not be accepted in Audit.
- The financial statements of the year 2020 will be rectified after an appraisal of assets undertaken by a valuer who is having professional qualifications in terms of the Standard. -do-
- (d) Since useful life of the non-current assets had not been reviewed annually as required by Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets costing Rs.134.38 million were further in use despite being fully depreciated. However, action in terms of Sri Lanka Public Sector Accounting Standard 03, had not been taken to revise the estimated error so occurred. Moreover, action had not been taken to identify and disclose the fair values of the property, plant and equipment which were temporarily out of service, withdrawn from use and to be disposed.
- In terms of the Standard, a report on the assets fully depreciated was prepared and it has been forwarded to the Chief Financial Officer of the Ministry of Health (Board of Survey) to revalue the same and further, the Ministry of Health has informed that officers were assigned to take action in that connection.
- Action in terms of the Standard should be taken to rectify those errors and the financial statements for the year 2020 should be prepared and presented accordingly.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The value of Ambulance costing Rs.8.5 million which was received as a donation from the Ministry of Health during the year under review had been included in the Revaluation Reserve Account instead of disclosing in the financial statements as a donation.	Financial statements for the year 2020 will be prepared after rectifying this error.	Financial statements for the year 2020 should be prepared and presented after rectifying this error.
(b) Even though the value of amortization for 9 preceding years and the year under review had been Rs.8.25 million pertaining to the assets costing Rs.14.38 million which had been received as donations since the year 2010, the relevant amortization adjustments had not been made in the financial statements. Further, the amortization of other capital grants relating to the year under review had been understated by Rs. 5,858,840 in the financial statements. As such, the value of assets and reserve value had been overstated by the same amount in the financial statements.	-do-	-do-
(c) The cost of 02 surgical equipment and 08 items of machinery and furniture fittings remained as at 31 December 2019 had been overstated by Rs.1.4 million and Rs.287,188 respectively in the financial statements.	-do-	-do-

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

Reference to Laws, Rules Regulations etc.	Non - compliance	Comment of the Management	Recommendation
(a) Wijaya Kumarathunga Memorial Hospital Board Act, No. 38 of 1999			
(i) Paragraph (iii) of Sub Section 3.1	The Medical practitioners employed in the Wijaya Kumarathunga Memorial Hospital had not appointed a person elected, from among themselves as a member of the Hospital Board.	Even though it has been requested from the Ministry of Health to appoint the Director of Hospital as the Director of this Board, with the concurrence of entire medical staff, the Ministry has not made the said appointment.	Action should be taken in terms of the provisions in the Act.
(ii) Sub Sections 3(3)and 3(4)	Even though the Acting Chairman of the Hospital Board should be appointed by the relevant Minister, an Acting Chairman had been appointed with the concurrence of the Board of Directors. Acting Chairman had served from 20 August 2018 to 29 January 2020 without a formal appointment.	At present, a Chairman has been appointed formally.	The financial loss relating to the privileges granted after making an irregular appointment, should be recovered from the officers responsible.
(iii) Sub Section 5.1	Although meetings of the Hospital Board shall be held at least once a month, only 5 meetings had been held during the year 2019.	The dates for the conduct of meetings are being fixed as per the powers of Chairperson and she has been	Action should be taken in terms of the provisions in the Act.

made aware of the necessity of conducting monthly meetings in the year 2021 as well.

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| (iv) Section 7 | Action had not been taken even up to 31 August 2020 to transfer the ownership of the land located at Seeduwa which had been specified in the Schedule of the Hospital Board Act, to the Hospital Board. | Since there was also a land belonging to the Ceylon Agro Company except the Wijaya Kumarathinga Foundation, action will be taken in future to design a single plan after enquiring the Ceylon Agro Company and obtaining the plan of the original land from the Board. | Immediate action should be taken to transfer the ownership of the land which was specified in the Schedule, to the Hospital Board. |
| (b) Financial Regulations 225 (1), 245(1) and 257 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | All payments must be supported by vouchers, prepared accurately and completely, in the prescribed forms and certified by the Certifying Officer while any payment made on an uncertified voucher will amount to an unauthorized payment. Nevertheless, the total amount paid for 138 uncertified paying vouchers during the year under review totalled Rs. 19.27 million. However, no action had been taken to surcharge against the officers responsible in terms of Financial Regulation 257. | Payments have been made for uncertified vouchers by the Accountant who has already been dismissed and action will be taken to avoid such errors in future. | Action in terms of Financial Regulations should be taken against the officers who had made payments for uncertified vouchers. |

- (c) Paragraphs 3.1.1 or 3.2.1 and 3.1.3 or 3.1.4 of Public Administration Circular No. 29/98 of 30 December 1998
- A total sum of Rs.343,792 had been paid as Language Allowances in respect of 23 officers pertaining to the period from January 2019 to March 2020 despite the failure to fulfil the qualifications specified in Paragraphs 3.1.1 or 3.2.1 and in addition, the qualifications specified in Paragraphs 3.1.3 or 3.1.4.
- The Language Allowance paid for 23 officers has been suspended from July 2020 and since those allowances were paid due to the discrepancies in circulars, a report recommended by the newly appointed Secretary to the Ministry of Health has been submitted to the Department of Management Services to rectify the said error.
- The money paid contrary to the circular provisions should be recovered from the persons who have received allowances or the officers responsible for making payments of allowances to the officers who had not fulfilled the required qualifications in terms of circular provisions.
- (d) Paragraph 9.3.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003
- Even though Schemes of Recruitment and Promotion for the posts of approved cadre should be formulated and obtained the approval of the Department of Management Services, Schemes of Recruitment had not been formulated and obtained the approval therefor even by the date of this report.
- Action has been taken to formulate Schemes of Recruitment.
- Prompt action should be taken to formulate and obtain the approval for Schemes of Recruitment and Promotion in respect of the posts in approved cadre.
- (e) Public Enterprises Circular No.55 of 14 December 2010
- Even though Audit and Management Committee meetings should be held at least once in 3 months, only 02 Audit Committee meetings had been held for the year 2019.
- Action will be taken to hold the Audit and Management Committee meetings in future as required.
- Action should be taken in terms of circular provisions.

(f)	Guidelines 4.2.1(a) and (b) of Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka	Master Procurement Plan had not been prepared for the year under review.	Only the Annual Procurement Plan is being prepared at present.	In terms of the Government Procurement Guidelines, the Master Procurement Plan should be prepared and it should be updated annually as required.
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2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.63.51 million as against the surplus of Rs. 45.73 million of the preceding year , thus a deterioration of Rs.109.24 million was observed in the financial result . The decrease in Government grants by Rs.28.42 million and increase in the expenditure of the year by Rs.83.38 million had been the main reasons for the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) A provision of Rs.256 million was made for the construction of building for Wards Complex and it had been planned to complete the constructions by 31 December 2019. Nevertheless, only the award of contract had been done as at that date.	Subsequent to the completion of all procurement activities by the Procurement Committee of the Ministry of Health and submission to the Cabinet Appointed Procurement Committee, the newly elected Government has suspended all projects and new constructions for a period of 2 ensuing years, thus the said project has also been suspended and the responsibility of these procurement activities rest with the Ministry of Health.	Action should be taken for the maximum utilization of provisions made and to complete the constructions as planned.
(b) Out of the 208 units of medical supplies purchased at a cost of Rs.136,859 prior to the year under	Transfer of Medical Officers and accordingly, the changes made to treatments and using alternative drugs, decrease in the expected	Attention should be paid to use the medical supplies before the expiry.

review and 25,092 units of medical supplies purchased at a cost of Rs.426,071 during the year under review, no unit had been used even by the end of the year under review.

visits of patients and slow moving of certain drugs were the reasons for the inability to use the drug stocks.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The decrease in the number of patients who got treatments from the Dental Clinic during the year under review, had been 23.6 per cent. Further, the decrease in the number of patients who got treatments at Ward No.1 and Ward No. 2 had been 24 per cent and 31 per cent respectively as compared with the preceding year. Moreover, the decrease in laser treatments had been 40 per cent as compared with the preceding year.</p>	<p>The patients' visits to a hospital depend on the necessity of patients and the patients who visit the hospital are being treated whereas the decrease in the number of patients can be considered as the progress of prevention of diseases.</p>	<p>It should be ensured that the progress of prevention of diseases has been the reason for significant decrease in the number of patients. The Management of the hospital should pay attention to provide the service for more patients through improving the patient care service.</p>

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
<p>(a) Guidelines 2.11.3 and 4.3.1 of the Government Procurement Guidelines had not been followed in the procurement of cleaning service for the Hospital Board during the year under review. Further, explanations on the manner the bidder intends to perform the works as per low rates, had not been obtained from them in terms of Guideline 7.9.11.</p>	<p>Action will be taken in future procurements to pay more attention to the standard of chemicals, Selection of bidders has made the hospital economically viable, A register to record the attendance of all supervisors and employees has been maintained monthly and that register was being checked and signed daily by the Administrative Officer or another officer and by a</p>	<p>The reports of Procurement Committee meetings should be prepared as per the formats specified in Procurement Guidelines. In terms of the general conditions of bidding documents, it should be considered in the bid evaluation that whether the disinfectants are up to the standard and the quotations are reasonable and realistic as compared with the market value.</p>

Attendance records of the supervisors and employees of cleaning service had not been maintained under the supervision of a responsible officer of the Hospital. A total sum of Rs.9.22 million had been paid to the contractor during the year under review without assuring the standard of chemicals used. There were 38 instances where the labourers were employed over 24 hours and 154 instances where the labourers were employed less than it, contrary to the service agreement of cleaning.

Nursing Officer in charge of night shift as well. In case of the instances where the labourers were employed over and less than 24 hours, those charges have been deducted from monthly bills in terms of the Agreement.

Bids shall be evaluated strictly and the lowest evaluated substantially responsive bid shall be selected.

The attention of the Technical evaluation Committee should be paid to the decisive factors of bid evaluation.

A responsible officer should be assigned the task of checking and signing the attendance records of supervisors and employees of cleaning service on daily basis.

It should be frequently checked whether the contractor act in terms of Clauses set out in the contract agreement of cleaning service.

- (b) Contracts valued at Rs.3.26 million and Rs.1.53 million had been awarded to the contractors selected under Open Competitive Bidding for the two activities, that is tarring the road in front of the Hospital Board and partitioning the Outpatient Department. When awarding those contracts, the Director of Hospital has informed the Consultant to carry out the evaluation disregarding the bids with discrepancies. As such, the Consulting Firm has carry out the evaluation disregarding the institutions which have submitted the lowest quotations, thus a loss of Rs.476,849 had sustained from the two contracts.

Since the Chairman of the Procurement Committee is the Director of Hospital, the decision of the Director of Hospital has been considered as the final decision.

Action in terms of the Government Procurement Guidelines should be taken regarding all contracts. The loss occurred due to action not taken as mentioned above, should be recovered from the officers responsible.

- (c) In the procurement of an anaesthetic machine for the operating theatre at a cost of Rs.2.93 million during the year under review, a Biomedical Engineer had not certified that, the machine complies with specifications and other agreed conditions, the machine was received in compliance with bidding conditions, the machine received and fittings were properly installed, spare parts were received, the Warranty and Hand Book of the machine were received, the End User was given special training , instructions and explanations required for the use, the machine is fully operative after installation and necessary catalogues, manuals, instructions and guidance were provided.
- The Surgeon has signed the invoice that machine is fully operative and it has been provided in compliance with the required specifications. Further, the confirmation document of Warranty of the machine has been submitted to the Hospital and catalogues, manuals have been handed over to the Nursing Officer in charge of operating theatre.
- In terms of the Procurement Guidelines, the relevant certificate including all matters should be obtained from the End User or a Biomedical Engineer.

3.4 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
(a) Service of the post of Consultant Paediatrician which is not included in the approved cadre, had been obtained on Visiting Basis during the 4 preceding years. Nevertheless, a decrease of 41 per cent in the number of patients who have visited this clinic during the year under review was observed as compared with the preceding year.	Even though the said Consultant visits on the requirement of patients care, the decrease or increase in patients' visits is a process beyond the control of Hospital.	Attention of the Management should be paid to the gradual decrease in the number of patients during the 4 preceding years and decisions should be taken accordingly.

- (b) A post of Secretary to the Board of Directors which was not included in the approved cadre of the Hospital Board has been created and a female officer had been appointed to the said post without an approval of the Department of Management Services. However, specific duty had not been assigned while an allowance of Rs.30,000 and a transport allowance of Rs.5,000 had been paid monthly only on the approval of the Board of Directors. A total sum of Rs.442,000 had been paid for the period from 01 November 2018 to 31 December 2019. Moreover, office equipment valued at Rs.172,709 had been provided for the office of the said officer which was being maintained outside the Hospital premises.
- According to the Approval of the administrative powers vested in the Board of Directors in terms of the powers of the Hospital Board Act, a qualified officer has been appointed at the meeting of Board of Directors held on 03 October 2018 to perform the function of the Secretary to the Board of Directors and to coordinate the relevant affairs while approval has been granted to pay an allowance of Rs.30,000. This female officer is serving in the office of the Chairperson which is located at the Independence Square in Colombo while the office equipment has been provided on the approval of the Chairperson.
- Approval of the Department of Management Services should be obtained to create new posts for the Hospital staff. The duty of relevant post in respect of the Hospital should be identified and determined and further, a duty should be assigned under a supervising officer. The payment of allowances from State funds for the appointments not made accordingly, should be suspended with immediate effect and the equipment provided should be taken over by the Hospital.