

## Lanka Hospitals Corporation PLC and its Subsidiaries - 2021

---

### 1. Financial Statements

---

#### 1.1 Opinion

---

The audit of the financial statements of The Lanka Hospitals Corporation PLC (“Company”) and the consolidated financial statements of the company and its subsidiaries (“Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the income statement, statement of profit and loss and other comprehensive income, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 1.2 Basis for Opinion

---

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 opinion.

#### 1.3 Key Audit Matters

---

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Company Financial Statements and the Consolidated Financial Statements of the current year. These matters were addressed in the context of my audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and I do not provide a separate opinion on these matters.

- **Revenue recognition** – Refer to Note 4.15 – accounting policy and Note 5 to the Financial Statements. The Revenue of the Group for the year ended 31st December 2021 was Rs.10,034 Million.

#### Risk Description

---

The Group’s revenue generated from its healthcare services is disclosed in Note 5 together with the related accounting policy in 4.15. I considered revenue as a focus area due to the complexity of the pricing structure, its high volume,

#### Our Response

---

My audit procedures included the following, among others;

- I carried out audit procedures over revenue measurement by testing on a sample basis, transactional level pricing and applicable

determination of appropriateness of gross or net basis of revenue recognition in certain arrangements, and reliance on IT controls.

- documentary evidence.
- I discussed with management regarding the contractual arrangements where consultant medical personnel are involved, and tested on a sample basis the appropriateness of the recognition of revenue on a gross or net basis.
- I obtained an understanding about the key IT and manual controls over the occurrence of revenue and tested the same on a sample basis.
- I performed specific audit procedures over cash collection related to revenue covering a sample of locations where the Group’s business is carried out.
- I assessed the adequacy of the disclosures made in Note 5 in the financial statement.

- **Carrying value of inventories** – Refer to Note 4.8– accounting policy and Note 16 to the Financial Statements. The Group carried inventories of Rs.455 Million as at December 31, 2021, at the lower of cost or net realizable value.

**Risk Description**  
-----

**Our Response**  
-----

Valuation of inventory involves judgement and estimates due to the nature of products and stringent quality requirements. Due to allocation and sale of inventories within Group operations based on the business model, both existence and valuation of inventories are key areas of focus.

- My audit procedures included; assessing adequacy and consistency of provisioning for inventories at the reporting date with the Group’s inventory provision policy.
- On a sample basis, comparing the carrying amounts of the Group’s inventories with net realization value of those inventories.
  - Testing the existence of inventories through physical verification as at year end and validating the cost allocation within Group entities.

- **Recoverability of Trade Receivables** – Refer to Note 4.9.1 – accounting policy and Note 17 to the Financial Statements. The Group’s trade receivables as at 31 December 2021 was Rs.704 Million.

**Risk Description**  
-----

**Our Response**  
-----

Assessment of recoverability of the Group’s trade receivables involves based on management judgement. The historical payment patterns and other information relating to the creditworthiness of customers. Inherent subjectivity is

- My audit procedures included –
- Testing the Group’s credit control procedures, including the controls around credit terms, and reviewing the payment history and financial information pertaining to the customers.

involved in making judgements in relation to credit risk exposures to determine the recoverability of trade receivables.

- Testing the receipt of cash after the year end relating to 31 December 2021 balances; and
- Testing the adequacy of the Group's impairment provisions against trade receivables by assessing the judgements made and the historical trading experience with the relevant customers.
- Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the impairment provision.

#### **1.4 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 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 Group'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 intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

#### **1.5 Audit Scope**

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

## 1.6 Audit Observations on the preparation of Financial Statements

### 1.6.1 Internal Control over the preparation of financial statements

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Fixed Asset Register of the company had not been updated and facilities had not been provided to adjust periodically adjusted revaluation gain or loss in this register.	The first fixed assets registry had been prepared with assisting of KPMG in 2012. In this assignment all the assets were identified and tagged with assign asset codes. But we had been able to assign up to 82% value of the assets purchased after 31st December 2007. Due to the unavailability of the documents it was unable to assign value for the sum of the assets and these assets were represents zero value in the fixed assets register. At that time it was decided and agreed to continue fixed assets register there onwards.	Fixed Asset Register need to be updated and upgraded.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a profit of Rs.1.858 billion and the corresponding profit of Rs.196 million in the preceding year. As such, an improvement of Rs.1.662 billion was observed in the financial result. The operational revenue had increased by Rs.3.23 billion thus causing the said improvement.

## 3. Operational Review

### 3.1 Transactions of Contentious Nature

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had paid separately for the services obtained from 16 consultants hired for some specialized areas, but in addition paid them Rs.107.32 million during the year under review for retention of those consultants.	Sri Lanka is a country having consultant driven market rather than hospital driven market. Majority of Sri Lankan patients are consulting their preferred consultants by their names not by the hospitals names. This industry nature will also apply to Lanka hospital as well. To be in the industry leader Lanka hospital need to have a partnership with key highly reputed consultants. Patients who are coming to the hospital around the clock and some patients require specialized medical assistance in urgent basis which is not like in other business the	Proper evaluation should be made to check whether the payment is economical.

delaying medical assistance may cost of human life therefore hospital require to have a partnership with industry leading consultants in different specialties. It is not possible to having these leading consultants in hospital staff carder because they are not willing to join as a full time employee. If hospital wants to recruit them as a full time employee it will cost even much more to the organization. Each retainer payment is linked to a commitment of different modalities.

### 3.2 Procurement Management

Audit Issue -----	Management Comment -----	Recommendation -----
<p>The company own procurement manual had been introduced with effect from June 2021 and before introducing procurement manual Government Procurement Guidelines 2006 were used. The following observations are made.</p>		
<p>(a) The entity specific procurement manual prepared and applied in the year 2021 had not approved by the Board of Directors of the Company.</p>	<p>The draft entity specific procurement manual was approved by the EXCO at June 2021.</p>	<p>The entity specific Procurement manual need to be approved by The Board of Directors.</p>
<p>(b) The procurement plan for the year under review had not been prepared.</p>	<p>From the beginning of year 2021, the draft entity specific procurement manual &amp; MOFA had been executed. The annual CAPEX budget had been approved by Board of Directors.</p>	<p>Procurement plan should be prepared and adjust periodically. Company's manual should be amended by including guidelines for procurement plan.</p>
<p>(c) As per guideline 2.12 of the Government Procurement Guideline and the section 6.5 of the company's procurement manual, all the members of Bid Evaluation Committee are required to sign a declaration in the prescribed format its first meeting. However 13 procurement from selected sample had not complied with this requirement.</p>	<p>We agree with the observation. We are in the process by introducing Declaration clause to the Bid Evaluation Committee (BEC) Report where all BEC members will collectively adhere to and acknowledge the declaration by way of signing the BEC report.</p>	<p>Need to take actions to comply with applicable rules and regulations.</p>

- (d) Some members of the bid opening committee were not present at the committee meeting and representatives were present on their behalf. However, written evidence pertaining to the appointment of such agents had not submitted for audit. The company has a pre-approved list of departmental representatives who are authorized by the management to be present at the Bid opening committee, alongside the procurement team with effect from 12 January 2022. Need to take actions to make appointments of representatives in proper way and keep documentary evidences.
- (e) Technical evaluation committee of procurement for purchase of 01 no of Operation Theater Table (Bariatric) had recommended the lowest bidder who complies with all the requirements. However, Procurement Committee had decided to purchase OT table form 3<sup>rd</sup> lowest bidder who has previous experience with the Company. Due to this decision, the Company had to pay Rs.635,134 more. The TEC had overlooked the aspect of long-term durability and service sustainability of the recommended purchase. As a result, there was a discussion between the TEC and the PC and decided to procure the Marque brand at an additional cost of Rs.635,134 to derive the optimum benefit of the purchase. The procurement process should be done in a transparent manner.
- (f) The quotation of Procurement to Supply, Installation and commissioning of Terumo CZE Hemotherm 400CE Heater Cooler, had called from more than 200 registered suppliers without calling quotation from category of medical equipment supplier. However, a bid of Rs.7,000,000 was received, which was unusually higher than the estimated cost of Rs.2,000,000. Without considering this situation and without calling more quotations the procurement were offered to the quoted supplier. Even though, expected date as per purchase requisition of respective machine was 08 March 2019, the date of offering this tender was 06 March 2021. The company had taken unfair time of nearly 2 year to fulfill the requirement. This particular procurement was done under Shopping method and we called quotation by inviting all registered bidders who registered with us for the medical category. According to the end-user, the particular item should be compatible with the existing machine. Therefore, no point of view to go for re bidding other than accepts the offer received from quoted supplier. The respective PR was received on 25th July 2019 and Letter of Award was conveyed to the supplier on 11th September 2020. But, initially the PC instructed to hold the procurement to check the possibility to do direct import. But, ultimately the PC approved to procure the equipment from quoted supplier on 9th September 2020. Once the procurement Agreement was finalized the Purchase order was placed on 6th March 2021. Need to take actions to attract more suppliers and to expedite the process of procurement of important medical equipment.

- |   |  |  |
|---|--|--|
| <p>(g) Even though, the quotation had called from more than 100 registered suppliers for purchase of 01 no of Suspension Treadmill two bids were received with quoted prices of Rs.2,160,000 and 2,950,000 which were unusually higher than the estimated cost of Rs.500,000. Without considering the estimated cost, bids were evaluated and tender were offered to the responsive bidder.</p> | <p>This particular procurement was done under the Shopping method and we called quotation by inviting all registered bidders who were registered with us for the ‘medical’ category.</p> <p>According to the Bid evaluation Committee recommendation, the procurement was proceeded to fulfill the hospital requirement as it would make no commercial sense to recall bids again.</p> | <p>Need to take actions to attract more suppliers.</p> |
|---|--|--|

### 3.3 Human Resources Management

**Audit Issue**  
-----

**Management Comment**  
-----

**Recommendation**  
-----

- |  |  |  |
|--|--|--|
| <p>(a) A shortage of 366 numbers of actual staff was observed with compared to the approved carder. Out of 366 of the available vacancies 37 percent vacancies are in nursing cadre and 12 percent in the Doctor cadre.</p>  | <p>2021 was year full of pandemic with the country being lock down for the considerable period. Therefore, deployment staff was strictly done on need basis.</p> | <p>Approved carder should be reviewed periodically and should make necessary amendments.</p>                             |
| <p>(b) In the year 2021, the success of the training programs planned by the Company was as low as 36 percent. At least one training program out of 16 programs planned for nurses had not conducted except training programs conducted on request of nurses. Further only 23 training programs conducted out of 55 training programs planned for EXCO and Other Office Staff.</p> | <p>Training calendar was disrupted due to the pandemic as the mass scale gatherings were curtailed.</p>  | <p>The training program plan should be revised. Attention should be paid to the possibility of using online methods.</p> |



### 3.4 COVID 19 Treatment Centers

**Audit Issue**

**Management Comment**

**Recommendation**

With the rapid expansion of COVID 19 the hospital was referring to Corona treatments. Treatment Centers were established at 4 outside hotels. The following observations are made in this regard.

- |   |  |   |
|---|--|---|
| <p>(a) The relevant income of these four centers was not separately recognized and not evaluated profitability of these four centers.</p>   | <p>At that time there is no management requirement to calculate center wise profits. However, we have calculated overall profit from covid centers for management information.</p>   | <p>Profitability of each center should be evaluated separately.</p>                     |
| <p>(b) A proper internal control system had not introduced in running these treatment centers and records had not properly maintained. As a example there was no control system regarding the follow-up work performed by doctors, nurses and other workers who were employed in these centers. Also the records had not properly maintained.</p> | <p>When Lanka Hospitals introduce this service, it was a pandemic situation in the country with severe resource constraints including manpower, and a new experience to private hospital sector and had many operational obstacles. All necessary precautions in not compromising clinical care under severe constraints were established, evaluated and improved within the learning experience of this new situation in the country.</p> | <p>Efforts should be made to introduce internal control systems for all activities.</p> |