Lanka Hospitals Corporation PLC and its Subsidiaries - 2022
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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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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 2022 was Rs.10,698 Million.

Risk Description	Our Response
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, determination of appropriateness of	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 documentary evidence.

gross or net basis of revenue recognition in certain arrangements, and reliance on IT controls.	➢ 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.980 Million as at December 31, 2022, 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 receivable as at 31 December 2022 was Rs.475 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 2022 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 Un-reconciled Control Accounts or Records

Audit Issue					Management Comment	Recommendation
	Item	**Value as per Financial statement**	**Value as per Corresponding Records**	**Difference**		
		Rs. Million	**Rs. Million**	**Rs. Million**		
(a)	Fixed Assets (Total of 8 items)	7,712.18	7,011.18	700.99	The differences are historical and rooted to partial lack of documentation that were recognized prior to 2012 where the transitioning new management occurred 2008 onwards. This issue was documented in consultation with auditors	Action should be taken to identify the difference
(d)	Creditors (Total of four Creditors)	12.57	23.63	11.06	Cheques raised and/or awaiting transit is the reason for the difference.	Necessary action should be taken to reconcile & clear the differences

1.7 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) Trade debtors balance as at 31 December 2022 was Rs.296,863,086 and deduction of impairment loss on trade Debtors as at 31 December 2022 was Rs.33,558,328. Since the debt period of the hospital is 30 days, and the value of the debts exceeding 60 days among over 361 days amounted to Rs.74,977,075. The impairment balance included unsettled hospital charges of the patients who had left the hospital without settling such charges on various reasons after receiving treatments from the hospital. Observation were given below,	Impairment calculation is done based on the company's accounting policy which is developed considering the expected credit losses (ECL) model.	Action should be taken to recover hospital chargers with in the debt period.
(i) The amount that remained payable by the family members to the hospital for releasing the bodies of 08 deceased patients, was Rs.10,901,778	Indemnities were signed to get release the remains of the expired patients.	Necessary action should be taken to recover hospital bill.

	Audit Issue	Management Comment	Recommendation
(ii)	The hospital fees that could not be settled due to the lack of adequate money, amounted to Rs.9,329,344	Indemnities were signed to get the patients discharged where the patients didn't have adequate funds to settle the outstanding bills.	Necessary action should be taken to recover hospital bill.
(iii)	Due to the dishonoring the cheques provided for the hospital fees of 03 patient, the amount remained receivable to the hospital was Rs.1,993,835	This is correct	Necessary action should be taken to recover hospital bill.
(iv)	The hospital charges of 02 patients receivable from insurance institutions due to the issues that arose in the recovery of the relevant charges on insurance coverage amounted to Rs.2,485,251. The value of the hospital charges relating to a patient who fled the hospital amounted to Rs.779,920	This is regarding 4 times admission of a patient totaling to Rs.2,159,368 under Aviva Insurance and another patient admitted under Parliament of Sri Lanka totaling to Rs.325,883	Necessary action should be taken to recover hospital bill.

1.8 Bank management

Audit Issue	Management Comment	Recommendation
Stale cheque accounts		
The hospital has not introduced a system similar to Government's Financial Regulations in making payments by cheques and all the creditors are required to visit the hospital to collect their cheques. The amount transferred to the Stale Cheque Account due the payees not collecting their cheques within a period of six months in making payments by cheques was Rs.83,658,407.	Those accompanying balances included cheques collected but not presented to the bank. As an accounting policy, we transfer all expired cheques to the stale cheque account. However, we have issued new cheques or revalidate those stale cheques based on the request made by the particular supplier.	Necessary action should be taken to introduce a system similar to Government's Financial Regulations.

1.9 IT General Control

Audit Issue	Management Comment	Recommendation
a. Cancellation of OP bills according to the Hospital Information System		
(i) As per the ledger as at 31 December 2022, the pharmaceutical sales income of the OP pharmacy was Rs.780,256,269 and no record was maintained to compare the daily income of the OP pharmacy with the invoice value of the Financial Division.	There is a defined process to carry out daily reconciliations and recovery action is initiated to mitigate the effect of differences as per the company policy.	Necessary action should be taken to reconcile.

(ii) It was observed that 9,917 bills with a value of Rs.93,785,434 of the OP pharmacy have been canceled in the year 2022 as per the system currently in use.	This arises due to the trading patterns where the pharmacy relies on WhatsApp and similar other orders that do not progress to cash sales due to abandonment or modifications of the orders.	Necessary action should be taken to develop IT system.

b. Hospital Income

(i) Since the Hospital Information System (HIS) Billing Charge Classification has not been developed according to the current hospital charge revenue categories, after making the notes, the debit balance value of Rs.14,805,382 and the credit balance value of Rs.394,012 were accounted for without identification in the Drug Sales, Other Package and Miscellaneous Expenses accounts in the hospital income control account.	Chart of accounts in the HIS system does not cater to new procedures to be embedded in the billing system due to limitations inherent. However, the envisaged outcome this achieved through a work around where the procedures billed in the category (Other Procedures) are elicited in the FIS and appropriately unbundled shown.	Necessary action should be taken to develop IT system.
(ii) The audit has not received any record obtained from HIS system in terms of bills wise income for each month for reconciliation with Tally system of accounts.	HIS being the dynamic system subsequent bill update will adjust original outstanding amount as at transaction date. Therefore, it is not able to run the report after subsequent date and match with system record. Therefore, these reports need to be obtained at each month-end for the reconciliation purpose.	Necessary action should be taken to develop IT system.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.1.209 billion and the corresponding profit in the preceding year amounted to Rs.1.858 billion. Therefore a deterioration amounting to Rs.0.649 billion of the financial result was observed. The administrative expenses had increased by Rs.0.365 billion thus causing the said deterioration.

2.2 Key Performance Indicators

The Company Key Performance Indicators and its achievement are as follows.

Key Performance Indicators	Actual	Budget	Variance
Average length of Stay (Days- Total beds)	2.23	2.22	0.01
Average Occupancy Rate	69%	85%	(16)
Average admissions	22,709	29,748	(7,039)
Foreign patient admissions	665	831	(166)
OP Consultations	304,657	396,000	(91,343)
No of Surgeries	11,121	13,238	(2,117)

3. Operational Review

3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
a. Patient Lift & Construction work for lift core Following observation were made		
(i) As the valid period of the bid security to be deposited by the bidders had not been specifically stipulated in accordance with Section 3.8 of the Procurement Manual of the hospital, it had deprived the opportunity for the selection of substantially of minimum bid.	The technical issue has been rectified while reviewing the proposed new entity specific procurement manual.	Procurement guidelines should be followed
(ii) A formal letter had not been issued to the bidder regarding the acceptance of bids, and contrary to Section 3.2 of the Procurement Manual of the Company, the contract had been initiated after a delay of 274 days from the acceptance of the contract. Although the duration for the completion of the constructions had been extended up to 22 September 2022, constructions had not been completed even by 30 May 2023.	Contactor took the time longer than expected to review and agree with contract terms which coincided with the time taken to review price escalations.	Procurement guidelines should be followed
(iii) Even though the elevator worth Rs.6,480,000 had been received by the hospital on 02 July 2021, as the constructions of the buildings had not been completed, it remained idle for nearly a period of 02 years.	delay in completing the civil works to house the lift,.	Necessary steps should be taken to complete the procurement work as planned in the scheduled periods.

b. The procurement of 3 items of medical equipment for emergency unit. Defibrillator 3 Quantity, Infusion Pump 2 Quantity and Syringe pump 04 Quantity at cost of Rs7.844 138 on 27 July 2022

Following observations were made.

(i) Specifications had not been prepared in terms of Paragraph 3.2 of the Procurement Manual of the hospital. Furthermore, the procurement had been implemented without calling for competitive bids as required by Paragraph 2.5	The biomedical engineer recommended specific brand and models to use of the requirement of emergency. Hence, no specification was required.	Procurement guidelines should be followed
(ii) The purchase of medical equipment had exceeded the estimated value by Rs.3,644,138.	The particular decision on getting the specific models was taken by the Biomedical Engineer on being satisfied with the demonstration of machine capability.	Procurement guidelines should be followed
(iii) The certificate issued by the National Medicines Regulatory Authority for 02 medical equipment had expired as at 20 July 2022, the date on which the purchasing order was issued for the equipment.	However, at the time of purchase the NMRA had elapsed. The discrepancy is mere technicality and had not affected the materiality of purchased.	Procurement guidelines should be followed

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
A shortage of 316 numbers of actual staff was observed with compared to the approved carder at the 31 December 2022. The available vacancies 123 are in nurses.	Shortages have occurred mainly in the nursing and medical areas due to lack of availability of trained and skilled candidates.	Approved carder should be reviewed periodically and necessary amendments should be made.