

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Ltd (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 give a true and fair view of the financial position of the Company as at 31 December 2024, and of its financial performance and its 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 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 Company’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 Company 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 Company 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 Company.

1.4 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 Company'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 Company'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 Company 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.

1.5 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) Trade debtors balance as at 31 December 2024 was Rs.321,762,964 and deduction of impairment loss on trade Debtors as at 31 December 2024 was Rs.15,458,293. Since the debt period of the hospital is 30 days, the value of the debts exceeding 60 days amounted to Rs. 29,161,432.	On average it takes more than 60 days for settlement from billing date, as monthly invoices are dispatched to corporates after the month end and they are entitled for 30 days credit period from the date of invoice.	Steps should be taken to recover the due amount within the credit period.
(b) Trade debtor balance as at 31 December 2024 included Rs. 14,922,180 unsettled outstanding for more than 5 years. Legal action has been initiated to recover this amount. Observations were given below.		
(i) Legal action had been initiated against two contracted private companies (sample collection and centrifuging service provision companies) due to failure of recovering testing	Legal action was initiated against the two private companies in question due to their failure to settle laboratory testing charges amounting to Rs.924,142 for services provided. While recovery	Debt recovery process should be reviewed continuously.

charges amounting to through Credit Department and Rs.924,142. Mediation Process have not been successful, it was decided to initiate the actions to recover through legal means and the Company continues to pursue these cases through the courts, and the outcomes are still pending.

- (ii) Due amount Rs.12,847,250 from a private company for the test done for the treatment of Covid 19 had not been settle over two years. No agreement had been signed with the company and legal action had been taken. This refers to a private company which had an outstanding of Rs.12,847,250 as at 31st December 2024. No Agreement signed during Covid period. Due to payment default, Legal action was taken. -D0-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.564,270,015 and the corresponding profit in the preceding year amounted to Rs. 346,020,064. Therefore, improvement amounting to Rs.218,249,951 of the financial result was observed. The main reason for the improvement was increased of revenue by Rs.456,222,962.

2.2 Ratio Analysis

The Company Main Ratios are as follows.

Ratios	2024	2023
Current Assets Ratio	6.11 times	4.34 times
Quick Assets Ratio	5.69 times	3.99 times
Gross Profit Ratio	42 percent	40 percent
Net Profit Ratio	17 percent	21 percent
Return on Capital Employed	22 percent	27 percent

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
For the year 2024, estimated income for 83 COCOs was Rs.747,153,838 and	Out of these 16 COCOs, 12 COCOs opened in year 2024	Attainable targets need to be planned.

actual income was Rs. 802,643,511. and were in an immature stage. When considering the actual income The Management has already with estimated income overall target implemented necessary income had been achieved. But 16 strategies to improve these centers had failed to attain even 75 COCOs despite the intense percent of their respective targets. competition from other lab chains.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
The procurement of Gel Documentation System & Gel Electrophoresis System at a cost of Rs.22,764,957 and the procurement of Cryostat instrument at a cost of Rs.16,193,411. Observation were given below.		
(a) According to Paragraph 13.7 of the Lanka Hospital Procurement Manual (4th Edition), all members of the Procurement Committee are required to sign a declaration in the prescribed format at its first meeting and all members of Bid Evaluation Committee are required to sign a declaration in the prescribed format if the value of the Bid exceeding Rs.3 million. However, it was observed that the required declarations were not available.	Observation Noted. Currently we have streamlined the requirement to obtain Declaration from both committees with each report / Minute	Hospital procurement guide lines should be followed.
(b) According to Paragraph 3.2.2 of the Lanka Hospital Procurement Manual (4th Edition), a detailed procurement time schedule should be prepared, outlining the sequential steps and time frames for each activity from initiation to completion of the procurement process. However, it was observed that such a time schedule had not been prepared.	Observation Noted. This will be implemented with immediate effect for all procurement done through the NCB & LNB method	-Do-
(c) According to the Paragraph 3.3 of the Lanka Hospital Procurement Manual (4th Edition), an itemized cost estimate, including pre-procurement, procurement, and post-procurement	Observation Noted. Currently the estimated values are mentioned in the procurement requisition.	-Do-

costs with VAT shown separately, must be prepared and approved prior to inviting bids. However, it was observed that this requirement had not been complied with.

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| (d) According to Paragraph 9.5.3 of the Lanka Hospital Procurement Manual (4th Edition), it is the responsibility of the Bid Evaluation Committee (BEC) to review and approve of specifications to ensure that the specifications are fit for the purpose and are generic in nature so as to promote competitiveness. However, it was observed that such approval had not been obtained. In addition, the Bid Evaluation Committee was appointed only after the bids had already been called, which constitutes a clear procedural violation. | Observation noted & partially agreed.

Specification was confirmed by the head of BEC, the end user & head of lab who were nominated as BEC members

Due to practical reasons sometimes the mentioned deviations are practiced in appointment of BEC. Going forward the provisions in the procurement manual will be strictly followed. | -Do- |
| (e) Although it was stated that the evaluation criteria of the procurement notice, priority would be given to NMRA registration, but that criteria had not been considered in the evaluation. | No one submitted NMRA certification to consider priority. | Evaluation criteria should be considered in the evaluation process. |
| (f) According to Paragraphs 11.2(i) and 11.3(ii)(i) of the Lanka Hospital Procurement Manual (4th Edition), the successful bidder should be notified in writing within one week after the Procurement Committee (PC) and the Board of Directors (BOD) make their recommendation. Furthermore, within 10 days of receiving such notification the successful bidder is required to confirm in writing their acceptances or declining the award to procurement entity. However, in this instance ,the procurement committee did not issue the written notification of the contract award as required. | Observation noted.

Issuing of letter of acceptance not strictly followed considering the undue delay in completing the steps to issue the PO. This provision is identified as a matter to revisit during the next review of the procurement manual. | Hospital procurement guide lines should be followed. |
| (g) According to Paragraph 11.3 of the Lanka Hospital Procurement Manual | Observation Noted. | -Do- |

(4th Edition), a contract should be signed between the company and the successful bidder. But in these procurement contract had not been signed with selected bidder.

The Draft agreement was sent to the supplier for their Confirmation. In spite of our many reminders they have failed to respond to the agreement and delivered the goods. Will make a necessary arrangement to control this type of issues.

- (h) In the procurement of Cryostat instrument, quotation was called under Limited National Competitive Bidding method on 15 May 2023. Bid Evaluation Committee decision was given on 2nd December 2024. But at the date, bid validity date has been expired. So company had to purchase machine at high value as per new quotation. On this procurement Rs.1,411,605 financial loss had been occurred.

Initially bids were called for Brand new Equipment and negotiation was done accordingly. Supplier proposes to purchase demo machine available with us (Quotation dated 19th December) due to the proposed price increase of the brand new one.

The Bid Evaluation Committee should carry out its duties within the stipulated timeframe.

Once the quotation is received, immediately submitted to the Procurement Committee and the BOD. 22nd received the BOD directives and accordingly new quotation was called on the same day and the supplier forwarded it to us on 2nd January. Hence, there was no identical delay in getting the approval from the BOD and delay had occurred when the supplier forwarded the new quotation related to 2024 prices.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
As at 31 December 2024, the approved carder of the Lanka Hospital Diagnostics was 674 staff, whereas the actual staff was 545. There were 08 excess employees for 8 positions and 137 vacant posts for 80 position . Out of 137 of the available vacancies 12	Although vacancies exist in the cadre, they will be filled only if there is an operational requirement of the respective unit and the Laboratory. Based on this requirement, the relevant Head Of Department	Approved carder should be reviewed periodically and should make necessary amendments.

are in Sales Development Associate and 48 in the Phlebotomist carder. Company had not been restructured the carder position recently.

must submit a Recruitment Requisition Form to human resource department in order to initiate the recruitment process. In the absence of a Recruitment Requisition, human resource department will not commence the hiring process.

Some vacant positions have been downgraded and filled with lower-level roles that better align with the operational requirements of the unit. It is necessary to compare and reconcile these with the existing vacancies to obtain a clear picture and ensure that no excess positions exist.

However, the budgeted cadre for the planned new outside laboratories will not be filled if the laboratories are not opened.