

Sri Jayawardhanapura General Hospital Board - 2013

The audit of financial statements of the Sri Jayawardhanapura General Hospital Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Jayawardhanapura 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 Standards of Supreme Audit Institutions (ISSAI 1000- 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Jayawardhanapura General Hospital Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

The valuation of stocks based on the average price in the preceding year had been done based on the last purchase price in the year under review. But, that had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The gratuity payments relating to preceding years amounting to Rs.1,638,062 resulting from errors of computations had been brought to account as expenditure of the year under review instead of being adjusted in the accounts with retrospective effect.
- (b) The professional fees and specialist medical fees of the Doctors of the Hospital are recovered from the patients and paid to the Doctors. As such receipts and payments are equal, those had been set off instead of showing the income and expenditure separately.
- (c) The value of the balance stocks of finished garments as at 31 December 2013 in the “General Stores ” had not been taken into account in the valuation of stocks, and as such the closing stock for the year under review had been understated by a sum of Rs.787,666.
- (d) Instead of amortizing the depreciation on the fixed assets received by the Hospital as donations amounting to Rs.3,257,000 under the donations, that had been amortized from the Treasury grants.
- (e) Even though the deprecation adjustment for the year in the cash flow statement amounted to Rs.146,724,170 a sum of Rs.178,228,398 which included adjustments

made to the Accumulated Fund as prior year adjustments had been adjusted in the cash flow statement.

2.2.3 Lack of Evidence for Audit

A sum of Rs.10,446,000 out of the trade creditors amounting to Rs.165,444,686 shown in the financial statements could not be established in audit.

2.3 Unreconciled Control Accounts

The following observations are made.

- (a) Even though the income of the Radiology Section, E.C.G. Section, Endoscopy Section and the Motor Vehicles Yard for the year under review according to the financial statements amounted to Rs.66,754,497 according to the registers maintained by such Sections and the monthly returns that amounted to Rs.78,948,570 and as such the difference amounted to Rs.12,194,073.
- (b) The balance relating to 10 trade creditors according to the financial statements amounted to Rs.33,026,482 and the balance according to the confirmation of balances amounted to Rs.44,071,629 and as such the difference amounted to Rs.11,045,147. A difference of Rs.24,980,524 between the creditors balances of the Medical Supplies Section was also observed.

2.4 Accounts Receivable and Payable

(a) Accounts Receivable

It had not been able to recover even by the end of the year under review the income receivable amounting to Rs.274,531 older than two years up to 11 years, hospital charges amounting to Rs.60,900,428 older than one year and less than five years, a sum of Rs.727,265 existing over a period exceeding five years and sewerage fees amounting to Rs.5,907,011 existing over a period exceeding 04 years shown under debtors.

(b) Accounts Payable

A sum of Rs.79,815,258 in the creditors and accrued expenses relating to periods ranging from two years to five years and a balance of Rs.104,465,025 relating to periods exceeding five years had not been settled even by the end of the year under review.

2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

According to Chapter 5 Section 2 of the Manual of Drugs Management a stock of drugs adequate for a maximum of two months should be maintained in the Drugs Stores. Nevertheless, the value of the excess stocks of 4 categories of drugs adequate for periods between 04 months to 11 months amounted to Rs.8,340,262.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of Sri Jayawardhanapura General Hospital Board for the year ended 31 December of the year under review had resulted in an after tax surplus of Rs.92,286,362 as against the after tax deficit of Rs.119,173,526 for the preceding year, thus indicating an improvement of Rs.211,459,888 in the financial results. The increase of the income of the Hospital by a sum of Rs.127,391,908 and the increase of the Government recurrent grant by a sum of Rs.172,366,000 had been the major factors for the improvement.

3.2 Legal Actions instituted against the Board and by the Board

The following observations are made.

- (a) Thirteen internal persons of the Board and external persons had filed 13 cases in Courts against the Board for retiring prior to reaching the age of retirement, non-receipt of promotion, obtaining a higher grade in appointment, weaknesses in the patient care services, etc.
- (b) The Board had filed a case in a Court against a person for the recovery of hospital charges amounting to Rs.179,000 from that person.

3.3 Working Capital Management

Low values were reflected in the liquidity ratios and the lack of an adequate working capital for the settlement of the liabilities of the Hospital continued throughout.

3.4 Cost of Free Medical Treatment

The accounting system had not been implemented in a manner to identify the expenditure of the outdoor medical services provided to the staff.

4. Operating Review

4.1 Performance

- (a) The operations of the Board for the year under review as compared with the preceding year indicated a decrease. Details appear below.

Performance Indicators	2013	2012	Decrease	Decrease in the year 2013 as compared with the year 2012 as a percentage
(i) Number of Patients admitted to Emergency Treatment Unit	38,323	42,883	4,560	10.6

(ii)	Number of Indoor Patients	54,283	57,119	2,836	5.0
(iii)	ECG Examinations	35,300	38,431	3,131	8.0
(iv)	Topograph Tests of Ophthalmology Unit	35	50	15	30.0

(b) The overall bed utilization of 70.5 per cent in the preceding year had decreased to 64.07 per cent in the year under review.

(c) The following observations were made in connection with the performance of the Cardiology and Surgical Unit of the Hospital.

(i) A test check revealed that documentary evidence was not available in support that after the identification of the patients needing CABG heart surgery through the tests carried out by the Cardiology Unit had been referred to the Cardiac Surgical Unit through the Bed Head Tickets.

(ii) Even though the Cardiac Intensive Care Unit obtained the physiotherapy services from the Physiotherapy Unit from February to October 2013, the requests for services in terms of the Internal Circular No. 02/2013 of 05 February 2013 had not been forwarded to that Unit.

4.2 Management Inefficiencies

According to paragraph 4(i) of the Ministry of Health Circular No. 02/19/2009 of 27 March 2009, an additional service allowance to Nursing Officers who serve for over 36 hours per week. The overtime payments made to the Nursing Officers in March 2013 amounted to Rs.3,410,750 and an examination of that payment revealed that payment for 10,409 overtime hours exceeding the actual number of hours for 446 officers had been made. Such payments amounted to Rs.1,314,338 and represented 38 per cent of the total overtime payments made in the month.

4.3 Apparent Irregularities

According to service agreement relating to the supply of security services to the Hospital, in instances where the specified numbered of employees are not deployed, the salary rates payable to the deficient number of employees should be computed and deducted from the bill. The salaries not so recovered during the period January to May 2013 totalled Rs.562,900.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) Stocks valued at Rs.7,166,407 available in 04 Hospital Stores of Surgical Goods, Laboratory Goods, Radiation Materials and Electronic Engineering remained without being used over a period exceeding 02 years as at 31 December 2013.

- (b) A stock of 2,400 copies of the Annual Reports of 07 years from 2004 to 2010 valued at Rs.167,310 had been retained in the stores without being distributed.
- (c) Out of the 1,000 copies of the Commemorative Volume printed for the commemoration of the Twenty Fifth Anniversary of the Hospital in the year 2010, a stock of 342 copies costing Rs.256,676 remained in the stores as at 31 December 2013.

4.5 Identified Losses

The following observations are made.

- (a) Even though the fee for the Abdominal Ultrasound Scan Test carried out in the Labour Room is Rs.600, recoveries had been made at Rs.500. The loss incurred in the year 2013 amounted to Rs.106,700.
- (b) A test check of the income received by the Hospital revealed that in the case of a patient relating to a Bed Head Ticket on which the final bill had not been in the file had been fraudulently discharged by attaching the settled bill of another discharged patient to the Bed Head Ticket to indicate that the bill had been properly paid. The loss caused to the Hospital from the non-settlement of the final bill of the patient amounted to Rs.49,470. A further check revealed that an undercharge had been made in the bill prepared causing loss of Rs.23,402 to the Hospital and the overall loss to the Hospital on that Bed Head Ticket amounted to Rs.72,872.
- (c) An Idle stock of Surgical Materials valued at Rs.424,558 of the year 2012 had become outdated in the year 2013. Out of that, a stock valued at Rs.338,816 had been handed over to the Stocks Disposal Board. In addition to the above stocks the value of outdated stocks of the Surgical Materials Store as at 31 December 2013 amounted to Rs.256,395.
- (d) The value of the outdated stocks of the Surgical Materials and the Drugs Sub-stores as at 31 December 2013 amounted to Rs.386,929 and Rs.265,584 respectively.
- (e) An idle stock of the Surgical Materials Store as at 31 December 2013 valued at Rs.1,132,737 had become outdated in the year under review and that stock had been handed over to the Electro Engineering Stores.

4.6 Deficiencies in Contract Administration

The contract for the internal constructions of the second floor of the new building valued at Rs.15,948,240 had been awarded to the Department of Buildings on 10 June 2013 on the condition of completion and handing over in 84 days. The following observations are made in this connection.

- (a) An increase of Rs.5,683,832 was observed between the estimate prepared on the Regional Pricing Committee rates furnished initially and the estimate prepared in the second instance and the market prices had been exceeded.

- (b) A formal agreement on the contract had not been entered into between the Department of Buildings and the Hospital. A sum of Rs. 6 million had been paid as the mobilization advance. That amounted to 37.63 per cent of the total contract value and exceeded the limit of 20 per cent of the contract value.
- (c) A sum of Rs.5 million had been paid to the Department of Buildings on 19 November 2013 without obtaining the certified work reports and measurement reports.
- (d) The Chief Engineer of the Department of Buildings had informed the Chairman of the Hospital on 05 February 2014 that the work on the building had been completed, despite the non-completion of 04 items valued at Rs.2,300,000 included in the estimate of Rs.15,948,420.

According to Item 2.1 the floor should be completed by carpeting and the work of the building had been completed without carpeting the floor.

- (e) Even though the work of the contract should have been completed by 01 September 2013, the work had been completed only on 05 February 2014. Even though the contract had been delayed for 05 months, the liquidated damages could not be recovered due to the absence of an agreement between the two parties.

4.7 Delayed Projects

The contract for the installation of a software system for the Hospital had been awarded to a private institution on 19 July 2010 and that contained proposals for the preparation of the software in 9 parts. The value of the contract amounted to Rs.24,953,859 and was scheduled for completion and handing over within 26 weeks from the date of commencement. The work on the contract had been commenced on 25 November 2010 and was due for completion on 08 May 2012. Nevertheless, the financial performance and the physical performance thereof as at 31 December 2013 had been 30 per cent and 60 per cent respectively.

4.8 Personnel Administration

The approved cadre as at 31 December 2013 for 14 categories of posts had been 1,561 and the actual cadre had been 1,215 and as such a deficiency of 346 in the cadre existed. In addition 54 had been recruited as casual labourers.

4.9 Utilization of Motor Vehicles

Accidents to Motor Vehicles

The following observations are made in connection with accidents to motor vehicles.

- (i) Even though the Hospital maintained a Register of Accidents to Motor Vehicles, it had not been maintained in accordance with Financial Regulation 110.
- (ii) The Log Books of 07 motor vehicles which met with accidents in the year under review had not been maintained properly.

- (iii) According to Financial Regulation 104(1)(b), (3) and (4) an inquiry should be conducted immediately after an accident to determine its extent and the reasons, and for determining those responsible to the accident. But that had not been so done.

5. Accountability and Good Governance

5.1 Corporate Plan

In terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Guidelines on Good Governance, copies of the updated Corporate Plan approved by the Board of Directors should be forwarded 15 days prior to the commencement of the financial year to the appropriate Ministry, the Department of Public Enterprises of the Treasury and the Auditor General. But it had not been so done.

5.2 Action Plan

- (a) Even though the objectives expected to be achieved in the year had been shown in the Action Plan for the year 2013, money for that had not been allocated in the financing plan.
- (b) Improvement to the motor vehicle yard, purchase of 2 new generators, construction of ECG Room, installation of HDU Units to medical wards, etc. included in the Action Plan for completion in the year 2013 had not been completed even by 31 December 2013.

5.3 Internal Audit

Even though the half yearly Internal Audit Reports for the first six months of the year by 31 July of that year and the half yearly Internal Audit Reports for the last six months by 31 January of the subsequent year, should be presented to the Auditor General, the half yearly Internal Audit Reports for the year 2013 had not been presented to the Auditor General.

5.4 Audit Committee

Even though the Audit Committee had recommended to the Financial Controller to prepare and furnish the formats designed to compute the cost and profitability at the level of each Unit of the Hospital that recommendation had not been implemented.

5.5 Procurement Plan

Even though a Static X Ray Floor Mounted Machine had been purchased for Rs.5,975,000 in April 2013 as the Static X Ray Machine purchased in the year 2013 had been subjected to breakdowns from time to time, that had not been included in the Procurement Plans of the years 2012 or 2013.

Even though the supplier had agreed to supply the machine within 6 to 8 weeks from the receipt of the order for goods, it had taken 23 weeks and the delay had been 15 weeks.

5.6 Budgetary Control

The following observations are made.

- (a) Even though an estimate of Rs.3,000,000 had been made in the Procurement Plan for the year 2012 for the purchase of an HD Video Laparoscopy System, the Hospital had spent a sum of Rs.10,735,800 in the year 2013 for the purchase of the machine. As such a sum of Rs.7,735,800 exceeding the planned cost had been spent and that was observed as an excess of 257 per cent over the estimated value.
- (b)
 - (i) Even though a sum of Rs.11,014,495 had been spent as the cost of free Medical treatment, provision for that had not been made in the annual budget estimates.
 - (ii) Even though a sum of Rs.1,288,406 had been spent as the cost of fuel for electricity generators, provision for that had not been made in the annual budget.
- (c) Variances ranging from 91 per cent to 412 per cent were observed between the budget and the actuals of 04 items of income and 9 items of expenditure thus indicating that the budget had not been made use of as an effective instrument of control.

5.7 Directives of the Committee on Public Enterprises of the Parliament

Even though the Committee on Public Enterprises had, at the meeting held on 21 September 2012, directed that a new business plan for the Hospital should be prepared and presented to the Committee on Public Enterprises that had not been presented even by 31 December 2013.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Assets and Stock Control
- (b) Collection of Income of the Hospital
- (c) Pricing of Drugs