

## **Sri Jayewardenepura General Hospital Board - 2014**

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The audit of financial statements of the Sri Jayewardenepura General Hospital Board for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Jayewardenepura 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**

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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**

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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 financial statements, whether due to fraud or error. In making those risk 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 the 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Jayewardenepura General Hospital Board as at 31 December 2014 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Twenty four units relating to 08 categories of equipment valued at Rs.12,205,000 received as donations in the year under review had not been brought to account.
- (b) Action had not been taken to identify the totally depreciated assets which were further being used and to show their fair value.
- (c) Medical equipment valued at Rs.7,211,022 obtained on credit basis in the year under review had not been accounted relating to the said year.
- (d) Instead of capitalizing a Medical equipment valued at Rs.430,000 purchased during the year under review, it had been brought to account under recurrent expenditure.
- (e) As a result of erroneous computation, provisions for gratuity had not been correctly calculated and the gratuity expenditure for the year had been overstated by Rs.2,939,786.
- (f) The gratuity payments relating to preceding years amounting to Rs.1,216,291 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.
- (g) Without being credited a sum of Rs.1,121,600 received by the Hospital from the Dialysis Fund to the Revenue Control Account of the Hospital, it had been credited to the profit and loss balance of the preceding year and as such the balance of the loss of the preceding year had been understated by that amount.
- (h) Hospital charges receivable as at 31 December of the year under review had been understated by Rs.14,130,657.
- (i) Out of the money deposited with the Labour Tribunal for the payment of compensations in respect of a court case filed against the Hospital, a sum of Rs.2,458,814 had been paid to the relevant party. Instead of being shown as employees' compensation of the year under review, that money had been further

shown as deposits and as such the surplus of the year had been overstated by Rs.2,458,814 and the balance of the deposits as at the end of the year had also been overstated by the similar amount.

- (j) Although the actual obsolete stock value amounted to Rs.5,236,987 as at 31 December of the year under review, it had been shown as Rs.1,118,887 in the financial statements. Therefore, the year-end stock balance and the surplus of the year had also been overstated by Rs.4,118,100.
- (k) As the hospital charges had not been identified and accounted under each revenue head and it was not checked whether all the bills were accounted, there had been a difference of Rs.14,745,152 between the income received in cash and the classification of the income. Without being taken this difference in to account, it had been divided over 8 revenue heads proportionately.

### **2.2.2 Lack of Evidence for Audit**

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Evidence had not been made available for audit for the establishment of trade creditors of Rs.10,446,000 older than 10 years out of the trade creditors amounting to Rs.91,582,131 shown in the financial statements.

### **2.2.3 Unreconciled Control Accounts**

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The following observations are made.

- (a) Even though the income of three sections of the Hospital amounted to Rs.22,473,345 according to the financial statements, it was Rs.24,535,204 according to the registers and the monthly returns maintained by such sections and as such the difference amounting to Rs.2,061,859 was observed.
- (b) Although the balance relating to 07 trade creditors according to the financial statements amounted to Rs.11,158,712, the said balance according to the confirmation of balances amounted to Rs.27,854,420. Accordingly, a difference of Rs.16, 695,708 could be observed.

### **2.3 Accounts Receivable and Payable**

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The following observations are made

- (a) Out of the creditors shown in the financial statements, a sum totalling Rs.6,668,561 had been older than 5 years and action had not been taken to recover a sum totalling Rs.114,503,429 even by the end of the year under review although a period of one year had exceeded.
- (b) A sum aggregating to Rs.52,383,802 in the creditors and accrued expenses relating to periods ranging from two years to five years and a balance of Rs.172,360,727 relating to periods exceeding five years had not been settled even by the end of the year under review.

## 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
(a) Treasury Circular No.842 dated 19 December 1978	Hospital had not prepared a Register of Fixed Assets in compliance with the circular.
(b) Public Finance Circular No.449 dated 21 February 2011.	In order to obtain emergency services required by the Government, service of an outside person could be secured on short term basis not exceeding 45 days subject to maximum of Rs.30,000 and in any case contrary to that, the prior approval of the Department of Public Finance should be obtained. Nevertheless, two officers had been recruited for the post of Financial Controller of the hospital for periods of 06 months and 03 months on two occasions on monthly allowances of Rs.120, 000, but approval from the General Treasury had not been obtained for that purpose.
(c) Public Finance Circular No.PED/12 dated 02 June 2003.	
(i) Section 7:4:5	An annual board of survey on the fixed assets had not been conducted from the inception of the Hospital up to the year under review.
(ii) Section 8:3:8	Without obtaining prior approval of the Cabinet Minister, a sum of Rs.200,000 had been donated to the Nursing School of the Hospital functioning under the Ministry.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of Sri Jayewardenepura General Hospital Board for the year ended 31 December of the year under review had resulted in a surplus of Rs.720,613,254 as compared with the surplus of Rs.92,286,361 for the preceding year, thus indicating an improvement of Rs.628,326,893 in the financial results. The increase of the income of the Hospital by a sum of Rs.195,925,920 and the increase of the Government grants for recurrent expenditure by Rs.700,400,000 had been the major factors for the said improvement.

### 3.2 Legal Actions instituted against and by the Board

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Seven internal persons of the Board and external persons had filed 07 cases in Courts against the Board for retiring prior to reaching the age of retirement, non-receipt of promotion, obtaining a higher grade in the appointment, weaknesses in the patient care services, etc. and the Board had filed a case in a Court against a person for the recovery of hospital charges amounting to Rs.179,000 which had not been settled by that person.

## 4. Operating Review

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### 4.1 Performance

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

Performance Indicators	2014	2013	Decrease	Percentage
(i) Number of Patients admitted to Emergency Treatment Unit	35,060	38,323	3,263	9
(ii) Number of Peritoneal Dialysis	07	25	18	72
<b><u>Number of tests of the Endoscopy Unit</u></b>				
(iii) Bronchoscopy	17	26	09	34.6
(iv) ERCPS	04	08	04	50
(v) Others	04	36	32	88.89
(vi) CCT tests (Eye unit)	39	76	37	48.68
(vii) Medical Check-up- FEB	2,719	3,733	1,014	27.16
(viii) Medical Check-up- Executive	372	637	265	41.6
<b><u>Radiotherapy Services</u></b>				
(ix) IVP tests	01	05	04	80
(x) CT Guide Biopsy tests	16	50	34	68

As the details on the surgeries performed in the theatre in January and April 2014 had not been submitted to the Medical Records Division, performance on the surgeries could not be evaluated.

(b) It was observed that bed utilization of 08 wards out of the 22 wards in operation in the Hospital had been at a low level of less than 50 per cent.

(c) The number of eye surgeries performed at the normal wards was 1,162 and the number of eye surgeries performed at the paying wards was 1,796 in the year 2014. Accordingly, the difference was 634 and it was an increase of 54.5 per cent as compared with the surgeries

carried out at the normal wards. Accordingly, it was observed that there was a higher tendency for referring patients to the paying wards in carrying out eye surgeries.

#### **4.2 Management Inefficiencies**

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The following observations are made

- (a) The contract for carrying out sanitary services of the Hospital for the year 2014 had been awarded to a private institution on a monthly charge of Rs.2,568,115. In the year 2012, the Ministry of Health had reported that the said institution was not a qualified institution to provide the relevant service and the Public Health Inspector and the officers in charge of the wards had continuously pointed out that cleanliness of the most sections was unsatisfactory. Nevertheless, instead of taking an appropriate step, the relevant contract for the years 2012, 2013 and 2014 had been awarded to that institution.
- (b) The Financial Controller recruited on contract basis for a period of one year had been paid his allowance of Rs.120,000 for the month of April 2014 on 09 April and the officer concerned had not reported for the service from 10 April. A sum totalling Rs.204,840 comprising a one month salary of Rs.120,000 recoverable from the officer for his termination of service without one month notification in terms of his letter of appointment and Rs.84,840 excessively paid for the month of April had to be recovered by the Hospital. Nevertheless, it had not been so done.
- (c) A new Financial Controller had been appointed to the Hospital for a period of 03 months on duty assigning basis on a monthly allowance of Rs.120,000. According to the relevant duty assignment, the officer should perform fulltime supervision and monitoring duties, whereas it was observed that the officer was not engaging in fulltime duty. Further, the Board of Directors had extended this officer's duty assignment on two occasions without evaluating the performance of him.
- (d) The contract for the supply of security services to the hospital had been awarded to a supplier even though the information he provided relating to the number of employees and payment of salaries was not tallied, and the particulars in connection with the payment of EPF and ETF had been erroneous. Later, supply of their services had been terminated after 15 days owing to lack of required personnel, and the contract had again been awarded to the same supplier who provided services earlier.
- (e) Pursuant to a memorandum of understanding between the Ministry of Youth Affairs and the Hospital, the University colleges of Health studies had been established for a period of 3 years. However, actions required for establishing the Institute as a separate entity in a legal manner in order to maintain it continually after the 03 year duration, had not been taken.
- (f) In spite of the decision taken at the Board of Director's meeting held on 23 January 2014 that 25 per cent of the course fees of the students following courses at the Institute be remitted to the Hospital by signing a lease agreement between the Hospital and the Institute, action had not been taken accordingly.

- (g) A private company had repaired the fuel leakage of the sump of a generator in the year 2012 at an expense of Rs. 335,066. Irrespective of the warranty period of 3 years given by the said company, the same fault had recurred within the warranty period. However, action had not been taken to get the fault repaired by the same company.
- (h) Cash given as funeral aids to the hospital employees should be paid from the hospital funds. By the end of the month, the total amount paid should be recovered in equal parts from all the employees registered to the funeral welfare fund. Nevertheless, action had not been taken to recover the total amount paid during the previous 6 months from the employees by the end of the month.
- (i) Patients are charged for the surgeries carried out at the paying wards by the surgeons, and the surgeons were paid their professional fees with the money so collected. However, doctors had been paid without properly identifying those receipts. During the year under review, payments amounting to Rs. 61,540,958 had been paid in excess of the income though, reasons for doing so had not been revealed. As frauds had taken place even earlier due to this scheme of payment, it was observed that the necessity to introduce strong techniques of control still exists.

#### **4.3 Under-utilization of Funds**

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The following observations are made.

- (a) Although approval had been granted by the Department of Public Enterprises for provisions amounting to Rs. 300 million as capital expenditure for the year under review, action had not been taken to commence the activities for which approval had been granted , such as purchasing 02 generators with an estimated value of Rs. 50 million, and improvement of central air conditioning system valued at Rs. 50 million.
- (b) The Treasury had granted a sum of Rs. 1,700,000,000 as recurrent provision during the year under review, and of that , a sum of Rs. 551,686,944 representing 32.45 per cent had remained idle in the bank current account without being utilized as at 31 December. Despite that surplus money, a sum of Rs. 374,086,000 had been obtained from the Treasury for recurrent expenses of the first 4 months of the year 2015.
- (c) Although a sum of Rs. 190,225,273 had been granted for purchasing capital assets during the year under review, fixed assets valued at Rs. 141,899,117 had been purchased according to the ledger accounts, thus a sum of Rs. 48,326,156 had remained unutilized. Despite the existence of such funds, the Hospital had purchased fixed assets valued at Rs. 29,009,588 by utilizing the recurrent grant as well.

#### **4.4 Idle and Under-utilized Assets**

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Stocks valued at Rs. 10,790,145 had remained idle at 07 of the main stores of the Hospital as at 31 December of the year under review. Of that, stocks worth Rs. 7,028,371 had remained idle since the year 2012.

#### **4.5 Identified Losses**

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The value of obsolete stocks at the main warehouses and sub warehouses amounted to Rs.5,403,347 as at 31 December of the year under review. Out of the stock valued at Rs.5,180,000 purchased for the neuro surgical unit in the month of February, 2012, a stock of Rs. 4,118,000 had become obsolete. This loss had incurred due to purchases made in large quantities without preparing estimates accurately for the annual consumption.

#### **4.6 Delayed Projects**

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Installation of a software for the Hospital had been assigned to a private institution at a value of Rs. 24,953,859 on 19 July 2010. The works of the contract had been commenced by a sub-contractor on 25 November 2010 and should have been completed within a period of 26 weeks. However, the contract had not been completed even as at 30 November 2014, and the physical performance was 65 per cent ,whereas the financial performance was 30 per cent. Accordingly, the relevant institution had been paid only a sum of Rs. 6,684,069 for the contract.

Due to the delay of more than 3 ½ years, the initial contract had been cancelled , and the Board of Directors had decided that the rest, or 35 per cent of the contract be awarded to the sub-contractor of the initial contract at a value of Rs. 8,250,000.

The following observations are made in this connection.

- (a) As for the new contract, a sum of Rs. 4,140,000 or 50.18 per cent of the contract value had been paid as an advance without obtaining a performance bond , and an advance bond.
- (b) According to the agreement, the contract should have been completed by 04 June 2015. However, the contract had not been completed as per the agreement, and the contract agreement had not mentioned the manner as to how the contractor should be fined for the delay.
- (c) The Dean of the University of Moratuwa, officiating as the consultant of the contract, should have presented information relating to the performance of the project in a timely manner. However, it had not been so done.

#### **4.7 Staff Administration**

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The number of approved cadre with regard to 29 posts was 1,838 as at 31 December 2014, whereas the number of actual cadre was 1,465, thus indicating a deficiency of 413 employees and a surplus of 40 employees. Additionally, 43 persons had been recruited as casual labourers.

## **5. Accountability and Good Governance**

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### **5.1 Corporate Plan**

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In accordance with the Section 5.1.3 of the Circular No. PED/12 dated 02 June 2003, the Corporate plan should be forwarded to the line Ministry, Department of Public Enterprises of the Treasury and the Auditor General prior to 15 days of the commencement of the financial year. Nevertheless, the corporate plan of the Hospital for the duration 2014-2018 had been presented to the Auditor General on 10 December 2014. It was observed that the action plan had not been prepared in compliance with the corporate plan. Furthermore, it was also seen that the objectives stated in the corporate plan had been confined to mere proposals instead of being materialized.

### **5.2 Action Plan**

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The following observations are made.

- (a) According to the action plan presented for the year under review, 03 activities to be completed by the year 2014, and 03 activities commenced in the year 2014 and be completed up to 50 per cent, had not been commenced even by the date of audit - 31 March 2015.
- (b) The renovation of the vehicle park should have been completed by the year 2014 according to the action plan. The renovation had not been completed even as at the date of audit – 31 March 2015.

### **5.3 Internal Audit**

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Half yearly internal audit reports relating to the year under review had not been presented to the Auditor General.

### **5.4 Procurement Plan**

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Capital assets worth Rs. 72,819,000 planned to be purchased during the year under review, had not been purchased, but capital goods valued at Rs. 56,537,366 that had not been included in the procurement plan, had been purchased. It was observed in sample audit checks that money had been allocated inordinately and purchases had been made by exceeding the estimated values.

### **5.5 Budgetary Control**

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Due to variances ranging from 55 per cent to 2,858 per cent with regard to 02 items of revenue and 17 items of expenditure between the budget and the actual expenditure, it was observed that the budget had not been made use of as an effective instrument of management control.

**5.6 Directives of the COPE**

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It had been recommended at the COPE meeting held on 21 September 2012 that the new business plan relating to the Hospital should be prepared and presented to the Committee of Public Enterprises. However, it had not been done so even as at 31 December 2014.

**6. Systems and Controls**

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

- (a) Accounting
- (b) Staff Administration
- (c) Stocks Control
- (d) Financial Control
- (e) Cost of the Free Medical Treatments
- (f) Contract Administration