

Vijaya Kumaranatunga Memorial Hospital Board - 2015

The audit of Financial Statements of the Vijaya Kumaranatunga Memorial Hospital Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statements 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 Section 13(3) of the Vijaya Kumaranatunga Memorial Hospital Board Act, No. 38 of 1999. 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 controls 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 Auditing 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 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 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 Vijaya Kumaranatunga Memorial Hospital Board as at 31 December 2015 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a.) In case of non-availability of a Sri Lanka Public Sector Accounting Standard to be followed on a transaction in terms of Sri Lanka Public Sector Accounting Standard 03, an appropriate accounting standard should be created and used by the management. However, such a policy had not been introduced with respect to the amortization of capital assets valued at Rs. 1,861,115 received as donations by the end of the year under review.
- (b.) As the useful lifetime of non-current assets had not been reviewed annually in accordance with Sri Lanka Public Sector Accounting Standard 07, assets valued at Rs. 74,243,264 had still been in use despite being fully depreciated. As such, action had not been taken to revise the error in the estimate in terms of Sri Lanka Public Sector Accounting Standard 03. Furthermore, action had not been taken to identify and disclose the fair value of Property, Plant and Equipment that had been temporarily dysfunctional, removed from being used, and waiting to be disposed.
- (c.) The accounting policy and the costing method followed in terms of Sri Lanka Public Sector Accounting Standard 09 to value the stock valued at Rs. 20,464,465 as at 31 December 2015 had not been disclosed.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The value of the Payroll System software purchased by incurring a sum of Rs.200,000 in the year under review for preparing the salaries of the hospital staff, which had been an expense of capital nature, had been written off against the profit instead of being capitalized.

- (b.) Provision for employee gratuity had been overstated by Rs. 12,850,104 and brought to account by the end of the year under review.
- (c.) Instead of adjusting the employee gratuity provision of Rs. 8,525,242 for the year under review, the provision made for the preceding year amounting to Rs. 4,378,955 had been adjusted in preparing the cash flow statement.
- (d.) Due to omission of stocks and failure to use the accurate unit price as at 31 December of the year under review, the cost of the balance stock had been understated by a sum of Rs. 47,656 and brought to account.

2.2.3 Unexplained Differences

According to the registers being maintained, the total fees charged in the year under review for 04 types of surgeries and 02 types of tests amounted to Rs. 20,346,500, whereas that value amounted to Rs. 19,389,750 according to the Cash Book. As such, a difference of Rs.956,750 had been observed.

2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, and Regulations etc.	Non-compliances
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(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 138,245 and 257	A sum of Rs. 3,276,632 had been paid in the year under review in respect of 5 vouchers without being certified.
(ii) Financial Regulation 756 (1)	Board of Survey for the year under review had not been conducted even up to 01 July 2016.
(b) Treasury Circular, No. 842 dated 19 December 1978.	A Register of Fixed assets had not been maintained by including information relating to all fixed assets.
(c) Paragraph 9.3.1 of Public Enterprises Circular, No. PED/12, dated 02 June 2003.	Even though the approval of the Department of Management Services should have been obtained by preparing scheme of the recruitments and promotions, the scheme of recruitments had not been prepared.

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| (d) | Paragraph 8.9 of the Government Procurement Guidelines, dated 25 January 2006. | Without entering into a written agreement with the supplier, 02 Defibrillators had been purchased in the year under review at the cost of Rs. 1,178,100. |
| (e) | Letter No. DMS/1756 of the Director General of the Department of Management Services, dated 30 April 2014. | Despite being instructed by the said letter that the hospital staff should be restructured in compliance with the Management Services Circular, No. 30, action had not been taken accordingly. |
| (f) | Schedule 17 of the general Circular, No.01-21/2015 of the Ministry of Health and Indigenous Medicine, dated 28 May 2015. | A Food Management Committee had not been appointed to manage the ordering of raw foods, receiving, cooking and distribution by ensuring a minimum cost to the Government. |
| (g) | Drug's Management Handbook | |
| (i) | Paragraph 4(c) of Chapter 3 | Monthly committee meetings for reviewing drugs had not been held, and the relevant officers were not made aware of the progress thereof. |
| (ii) | Paragraph 2 of Chapter 5 | Minimum, maximum, re-order levels and buffer stocks had not been maintained in respect of drugs. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Hospital Board for the year under review had been a deficit of Rs. 20,023,884 as against the surplus of Rs.3,558,018 for the preceding year, observing a deterioration of Rs. 23,581,902 in the financial result of the year under review as compared with the preceding year. Even though the Government grants had been increased by a sum of Rs. 29,000,000 in the year under review, the increase in salaries, wages, employee benefits, and supplies and services by a sum of Rs. 52,101,756 had mainly attributed to the deterioration.

In analyzing the financial results of the year under review and 04 preceding years, the financial result of the year 2011 had been a deficit of Rs. 3,944,390. However, it had become a surplus of Rs. 3,646,870 by the year 2012, and then again the financial result had become a deficit of Rs. 20,378,939 in the year 2013. By the year 2014, the financial result had become a surplus of Rs. 3,558,018, whereas it had become a deficit of Rs. 20,023,884 in the year 2015. By considering employee remuneration and the depreciation on non-current assets, the contribution of the Board that amounted to Rs. 65,644,194 in the year 2011 had improved up to Rs. 119,370,321 in the year 2015 with a variation ranging from 8 to 59 per cent.

4. Operating Review

4.1 Performance

In accordance with the Vijaya Kumaranatunga Memorial Hospital Board Act, No. 38 of 1999, the function of the Board shall be to administer the affairs of the Hospital and to ensure that it functions efficiently and effectively as an institution to take care of the diseased persons. The matters revealed in the examination on the execution of those functions, are given below.

- (a.) The total number of outpatients and inpatients who received treatments in the preceding year and the year under review had been 294,786 and 323,362 respectively, and the increase in the number of patients had been 10 per cent as compared with the preceding year. The overall expenditure of the Hospital in respect of the preceding year and the year under review amounted to Rs. 217,597,454 and Rs. 273,524,255 respectively, and the increase in the overall expenditure was 26 per cent of which the increase on the expenditure for drugs was 24 per cent.
- (b.) Even though the number of radiotherapy had increased by 970 or 21 per cent in the year under review as compared with the preceding year, the expenditure on radiotherapy test ingredients had unusually increased by a sum of Rs. 340,923 or 150 per cent.
- (c.) Even though it had been planned to establish the Laboratory, Chronic Ulcer Care Unit, Utility Rooms, and Wound Care Unit by 31 December 2015 in the three-storied building the construction work of which had been completed in February, 2015, those Units had not been established even by 30 June 2016.

4.2 Operating Activities

The following observations are made.

- (a.) As the annual requirement of drugs and surgical materials had not been properly estimated, in considering the necessities of each Unit of the Hospital, 30 categories of drugs and surgical materials costing Rs. 8,453,826 not included in the said estimate, had to be purchased from external suppliers. In addition to that, a sum of Rs. 14,493,024 had been overpaid as drugs had been purchased from the State Pharmaceuticals Corporation at higher prices instead of purchasing from the Medical Supplies Division.
- (b.) Stock Registers had not been properly maintained and balanced correctly. Hence, negative balances had resulted in the Stock Registers, and 32 categories of drugs and surgical materials costing Rs. 1,456,887 had been included in the Stock Registers so as to remove those negative balances.
- (c.) A system of internal control had not been properly maintained by segregating the functions such as placing orders for drugs and surgical materials, receiving, issuing, maintenance of Stock Registers, and custodian of the stores. Instead, all those functions had been assigned to the same officer.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a.) As two machines with capacities higher than the requirement of the Hospital had been purchased, those two machines had remained underutilized. Particulars are as follows.
 - (i) Even though the maximum capacity of the Fully Automated Hematology Analyzer purchased in the year 2013 by incurring a sum of Rs. 2,500,000 was a minimum of 60 test units per hour, only 17 test units had been conducted per hour in the year under review.
 - (ii) Out of the 21 various types of tests which could be done with the Fully Automated Biochemistry Analyzer purchased in the year 2013 by incurring a sum of Rs. 8,736,000 only 09 types of tests had been carried out. Furthermore, despite the maximum capacity of the machine to perform at least 300 test units per hour, only 15 test units had been carried out in the year under review.
- (b.) A Nebulizer valued at Rs. 38,000 received in the year 2013 as a donation, had remained idle without being used even by 23 June 2016.
- (c.) The Operating Microscope used for ophthalmic surgeries purchased in the year 2000 by incurring a sum of Rs. 765,000, had remained idle without being used over a period of 06 years.

4.4 Procurement and Contract Process

The following observations are made.

- (a.) The demurrage for the delay of 112 days amounting to Rs. 672,000 had not been charged from the contractor to whom the contract for the construction of laboratory building had been awarded at the contract value of Rs. 12,431,157. Constructions had been made with weaknesses such as, cracked walls and door frames, broken door locks, water percolating through the roof, and uneven ceiling. The consultant had not inspected and supervised properly.
- (b.) A written agreement had not been entered into with the contractor for partitioning and installing grill covers at the first floor of the laboratory building, the contract value of which amounted to Rs. 817,435. Despite being failed to retain at least 5 per cent of the contract value until the completion of the defect liability period of the contract, and furnish the final bill along with the bills of quantity recommended and certified by the consultant, the total amount of Rs. 817,435 had been paid to the contractor.
- (c.) The bidder who had presented the lowest bid of Rs. 3,500 per cube of soil for filling the hospital premises with 1,190 cubes of soil, had been awarded the contract. However, following a request made by the contractor subsequently, a sum of Rs. 4,200 per cube of soil had been paid. Hence, a sum of Rs. 828,576 had been overpaid.

4.5 Personnel Administration

The following observations are made.

- (a.) The approved cadre of the Hospital had been 216, whereas the actual cadre had been 195 as at 31 December of the year under review. Action had not been taken over a period of 10 years to fill the post of director which is the main executive post of the Hospital. Eight officers had been recruited without approval in excess of the approved cadre.
- (b.) Action had not been taken to fill the vacancy of Specialist Anesthetist that had been approved in the year 2010. A sum of Rs. 314,000 had been spent for obtaining the services of an external Anesthetist in the year under review.
- (c.) As 03 approved posts of medical laboratory technician had become vacant, the high capacity equipment of the laboratory could not be made use of sufficiently.
- (d.) Due to non-availability of an approved scheme of recruitment for the Hospital, the scheme of recruitment for recruiting the Management Assistants to the Government service had been followed. However, irrespective of the provisions of the said scheme, 04 persons who had already been undergoing training at the Hospital had been recruited as Management Assistants by increasing the age limit and granting 45 marks for professional qualifications and experience , and 20 marks for the interview.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan had been prepared in respect of the period 2015-2019, it had not been prepared in compliance with the provisions of the Public Enterprises Circular, No. PED/12 dated 02 June 2003.

5.2 Action Plan

An Action Plan had been prepared for the year under review. However, activities relating to the accomplishment of the objectives of the institute had not been included therein, and annual performance reports had not been prepared as well.

5.3 Audit Committees

According to the provisions of the Public Enterprises Circular No. 55 of 14 December 2010, the Audit Committee should meet at least once in 03 months. But only one meeting had been held for the year under review.

5.4 Budgetary Control

Variances ranging from 27 per cent to 420 per cent were observed between the budgeted and the actual expenditure. Furthermore, a sum of Rs. 2,775,000 estimated for 5 items had been totally saved. As such, it was observed that the budget prepared for the year under review had not been made use of as an effective instrument of management control.

6. **Systems and Controls**

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

Areas of Systems and Controls	Observations
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(a) Procurement and Contract Process	Failure to supervise the construction contracts properly and failure to take action to achieve an optimum performance.
(b) Stocks Control	Failure to maintain a system of internal control in respect of stocks control properly.
(c) Personnel Administration	Failure to make recruitments in compliance with the instructions of the relevant Circulars.
(d) Supply of Raw Food Items, and Providing Food for the Patients	Failure to follow the instructions of the Circulars of the Ministry of Health from the supply of raw foods up to feeding the patients. Failure to implement a proper system of internal control.