

## **Wijaya Kumaranatunga Memorial Hospital Board - 2017**

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The audit of Financial Statements of the Wijaya Kumaranatunga Memorial Hospital Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Wijaya 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**

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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 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**

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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 Wijaya Kumaranatunga Memorial Hospital Board as at 31 December 2017 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 Sri Lanka Public Sector Accounting Standards**

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(a) **Sri Lanka Public Sector Accounting Standard 2**

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The following observations are made on the cash flow statement prepared for the year ended 31 December 2017.

- (i) Prior year adjustments of Rs.476,644 had been stated as cash inflows in the cash flow statement.
- (ii) The decrease of the balance of the account payable as at 31 December 2017 had been overstated by Rs.15,000 in the cash flow statement.
- (iii) Cash flow statement had been balanced by including a value of Rs.172,628 as adjustments under the investment activities.

(b) **Sri Lanka Public Sector Accounting Standard 7**

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The following observations are made

- (i) As the useful life of non-current assets had not been reviewed annually in accordance with Paragraph 65 of the Standard, assets valued at Rs. 97,838,607 were still 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 3. 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.
- (ii) In terms of Paragraph 69 of the Standard, depreciation of an asset begins when it is available for use. Nevertheless, contrary to that, the policy of depreciation of assets for the entire year of purchase and the policy of not making depreciation for the year of removal had been adopted irrespective of the date of purchase and removal of the asset.

## **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a.) Although a motor vehicle valued at Rs.5,600,000 received as a Government grant in the year 2011 had been fully depreciated by the year 2016, as the Government grants had been amortized at a rate less than the annual depreciation rate, a balance of Rs.2,240,000 had been saved in the Government Grants Account in respect of the above motor vehicle even by 31 December 2017.
- (b.) Although the annual depreciation of the fixed assets valued at Rs.12,635,376 received as donations from the year 2010 amounted to Rs.2,409,739 and Rs.1,875,023 relating to the preceding year and the year under review respectively, action had not been taken to gradually write off the donation account in a value equivalent thereto.
- (c.) Accrued contribution of the Employees Trust Fund, accrued expenditure for the repair of air conditioners and expenditure on trainings totalled Rs.886,467 as at 31 December 2017 had not been brought to account.
- (d.) Provision for gratuity of Rs.262,031 had been made as at 31 December 2017 in respect of 06 officers who were reemployed in the hospital service on contract basis after their retirement from the Government Service.
- (e.) Depreciations for computers relating to the year under review had been understated by Rs.20,850 in the accounts.
- (f.) As the stocks of drugs and surgical material of 04 wards and the theatre amounting to Rs.1,343,084 had not been subjected to physical verification, remaining stock of the drugs and surgical material as at 31 December 2017 had been understated in the account by that amount.

## **2.2.3 Unexplained Differences**

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According to the report of the physical stock verification report as at 31 December 2017 the cost of the stock amounted to Rs.16,579,101, whereas the cost of the above stock was Rs.16,331,318 according to the stock ledger. Accordingly, a difference of Rs.247,783 was observed, but the reasons behind that difference had not been explained.

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

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The following non-compliances were observed.

**Reference to Laws, Rules, and  
Regulations etc.**

**Non-compliances**

	<b>Reference to Laws, Rules, and Regulations etc.</b>	<b>Non-compliances</b>
(a)	Financial Regulations of Democratic Socialist Republic of Sri Lanka	
	Financial Regulations 702 (3)	Copies of the agreements entered into with the relevant contractual institutions in respect of the services such as maintenance and cleaning service, supply of raw food items, security service, washing of dirty cloths and obtaining a house on rent for Nursing hostel, of which the monthly contract value totalled Rs.2, 317,856, had not been furnished to the Auditor General.
(b)	<u>Drug's Management Handbook</u>	
(i)	Paragraph 1 and 2 of Chapter 4	The annual requirement of drugs, surgical materials, laboratory materials and radioactive matters had not been estimated.
(ii)	Paragraph 2 of Chapter 5	The lead time of the drugs supply process had not been determined and minimum stock level, maximum stock , re-order levels and buffer stocks level had not been maintained .
(iii)	Paragraph 3 and 4 of Chapter 5	Quarterly reports on the drugs returned to the Medical Supply Division due to expiry or the drugs being substandard in quality had not been prepared.
(iv)	Paragraph 13 of Chapter 10	(i) As the verification of stores had not been properly carried out, excesses and shortages of stocks, slow moving items , non-moving items , items imminent to expiry and the expired items had not been identified. Nevertheless, according to the stock registers, there were slow moving drugs and 374,473 units belonged to 37 categories of surgical materials costing Rs.1,011,606 and non-moving drugs and 7,773 units belonged to 18 categories of surgical materials costing Rs.528,047.

- (ii) According to the stock registers, drugs and surgical materials stocks costing Rs.1,343,004 existed in 04 wards and the theatre as at 31 December 2017 had not been subject to physical verification.
- (iii) Reports of the stores verification had not been signed by all the members of the Board of Survey and those had not been certified by including name of the officer in charge of the division that carried out the stores verification, the date and the signature of the officer.

#### **2.4 Transactions not supported by an adequate authority**

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The chief pharmacist had issued drugs and 10 categories of surgical materials totalling Rs.283,310 to 03 other Government hospitals without the approval of the Director of the Hospital.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Hospital Board for the year under review had been a surplus of Rs. 14,269,158 as against the deficit of Rs.3,091,146 for the preceding year, thus observing an improvement of Rs. 17,360,304 in the financial result of the year under review as compared with the preceding year. Even though the operating expenditure had been increased by a sum of Rs. 23,762,457 in the year under review, increase in government grants by Rs. 53,000,000 had mainly attributed to the above improvement.

In analyzing the financial results of the year under review and 04 preceding years, a deficit of Rs.20,378,939 and a surplus of Rs.3,558,018 could be observed in the year 2013 and 2014 respectively and it had become a deficit of Rs. 20,023,884 and Rs.3,091,146 during the year 2015 and 2016 respectively and a surplus of Rs.14,269,158 in the year 2017. However, when readjusting employee remuneration and the depreciation on non-current assets to the financial results, the contribution of the Board amounting to Rs. 68,464,933 in the year 2013 had continuously improved up to Rs. 177,372,828 by the year 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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The following observations are made

- (a) In terms of Section 5.1.2 of Chapter 5 of the Public Finance Circular No.PED/12 dated 02 June 2003, organization structure of the Hospital Board, SWOT Analyses of the Hospital Board, targets anticipated to be achieved to suit to the objectives within the relevant period and the strategies implemented for that purpose had not been included in the Corporate Plan prepared for the period from the year 2016 to 2020.
- (b) Although an Action Plan had been prepared for the year under review, activities relating to the achievement of the objectives of the Hospital Board had not been included therein.
- (c) Out of 851,287 units of 158 categories of drugs, surgical materials, laboratory materials and radioactive matters planned to be purchased from the Medical Supply Division by spending Rs.13,147,004 during the year under review, at least one unit had not been purchased and a sum of Rs.32,084,042 had been spent for the purchase of unestimated 461,792 units of 125 categories of materials. Therefore, it was observed that the relevant estimate had been prepared without being realized the necessity or carried out a study thereon. As such, the estimated expenditure amounting to Rs.39,699,740 had exceeded by 58 per cent and actual expenditure had been Rs.62,654,007.

#### **4.1.2 Functions and Review**

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The following observations are made.

- (a.) The total number of patients who received treatments from the Outpatients Department , attended the clinics and the number of inpatients had decreased by 11 per cent 14 per cent and 48 per cent respectively during the year under review as compared with the preceding year and in comparison to the preceding year, the eye surgeries and the minor eye surgeries performed during the year under review had decreased by 81.72 per cent and 33.46 per cent respectively. Further, the number of Laser tests, X-ray tests and Refraction Services carried out in the year under review had dropped by 50 per cent, 49 per cent and 41 per cent respectively as compared with the preceding year. Although the physician and the ophthalmologist had left out of the service action had not been taken to fill those vacancies and it had been the main reason behind the above situation.

- (b.) Even though it had been planned to increase the space facilities for the medical clinic, dental clinic and Outpatient Laboratory and make available facilities with sufficient ventilation to the patients of the Outpatient Department by the project for the improvement of facilities of the office building, the total cost estimation of which was Rs.35 million, as action had not been taken according to a proper plan, project activities had been discontinued by 31 May 2018 for the want of estimated funds.
- (c) According to the Corporate Plan prepared for the year under review, although it had been planned to purchase 04 medical equipment valued at Rs.24,700,000 during the year under review, relevant procurement activities had not been commenced even by 31 December 2017. Further, plans had been drawn to repair the theatre building by spending Rs.4,000,000 in terms of the Action Plan, whereas preparation of BOQs and estimates only had been done even by 31 December 2017.

## 4.2 Management Activities

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The below mentioned machines had remained underutilized as those had been purchased without recognizing the requirement of the Hospital Board. The following observations are made thereon.

- (a) Even though a Fully Automated Hematology Analyzer with the high capacity of minimum of 60 test units per hour had been purchased at a cost of Rs.2,500,000 in the year 2013, only 17 test units, 9 test units and 20 test units per hour had been done from the year 2015 up to the year under review respectively.
- (b) Even though a Fully Automated Biochemistry Analyzer with the capacity of carrying out 21 types of tests and the capacity of carrying out at least 300 test units per hour had been purchased by spending Rs.8,736,000 in the year 2013, only 12 types of tests and 25 test units and 34 test units per our had been done in the preceding year and the year under review respectively.
- (c) Since contributions of the Employees' Provident Fund and the Employees' Trust Fund payable in respect of 55 employees recruited on contract basis during the period from the year 2005 to 2016 had not been remitted during the prescribed period, the Hospital Board had to pay sums totalling Rs.3,737,945 comprising Rs.1,533,879 as contributions and Rs. 2,204,066 as surcharges to those Funds.
- (d) As X-Ray Films had been purchased without being correctly recognized the existing stock and the quantity of usage, 5,006 X-Ray Films valued at Rs.330,426 had expired by 01 March 2018.

## 4.3 Operating Activities

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The following observations are made

- (a) In terms of Paragraph 13 of the contract agreement relating to obtaining maintenance and cleaning services for the year 2017, a certificate should be obtained from the officer in charge of each ward to the effect that service had been rendered in higher standard. Nevertheless, without obtaining such certificate, a sum of Rs.2,812,680 had been paid for the cleaning service relating to the year under review.

- (b) Action in terms of the General Circular No.01-21/2015 dated 28 May 2015 of the Ministry of Health, Nutrition and Indigenous Medicine had not been taken in respect of supplying raw foods to the Hospital and providing foods for the patients. The following observations are made thereon.
- (i) Activities such as obtaining assistance of the Management Committee for the preparation of weekly food programme by the Head of the Department, distribution of the prepared weekly food programme to the relevant Divisions and preparation of a monthly vegetable supply programme as required by the Paragraphs 5.1.3 and 5.1.4 of the above circular had not been carried out.
  - (ii) In terms of Paragraphs 7.5 and 7.7 of the above circular, every medical officer who visits the ward in the morning should draw a diet chart suitable for each patient and mark it on the bed head ticket and draw a such chart on the additional foods according to the requirement and mark the it on the bed head ticket and certify the same personally. Nevertheless, action had not been taken accordingly.
  - (iii) Action had not been taken to prepare separate diet chart for the ward according to the Health Format 31 in respect of inpatients on the first day of each month, check the bed head tickets by the officers concerned and mark the prescribed meal on the diet chart, compute the required amount of meal per day by summarizing the diet chart of each patient and compare it with the available number of patients, as required by the Paragraphs 8.1.1, 8.1.3 and 8.1.4 of the above circular.
  - (iv) Action had not been taken to look into wasting of cooked meals and thereby place orders by reducing a certain percentage of raw foods, place orders for food items within the maximum monthly limit approved by the Procurement Committee and maintain a proper control thereon, as required by Paragraphs 10.5, 10.10 and 11.7 of the above circular.
  - (v) According to the Paragraphs 14.1, 15.1 and 15.3 of the above circular, action had not been taken to show samples before serving the meals, check whether the employees obtain meals according to the meals card and ensure that only the prescribed amount of foods are provided to the employees.
  - (vi) In terms of 17 Schedule of the above circular, a food management committee had not been appointed to manage the placing orders for raw food items , obtaining, cooking and distributing them so as to incur a minimum cost by the Government.

#### **4.4 Underutilization of Funds**

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Even though a sum of Rs.18,300,000 had been received as the Government Grants for the capital expenditure such as purchase of medical equipment and renovation of the theatre during the year under review, action had not been taken to carry out those activities and as such more than a sum of Rs.15,000,000 of that amount had been saved and according to the cash book relating to the capital expenditure as at 31 December 2017, the total balance of the Government Grant had been Rs.28,361,382.



#### **4.5 Personnel Administration**

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The approved cadre and the actual cadre of the Hospital as at 31 December of the year under review had been 250 and 210 respectively. The following observations are made in this respect.

- (a.) Schemes of recruitment and promotion in terms of Public Enterprises Circular No.PED/12 dated 02 June 2003 had not been prepared in respect of any post approved for the Hospital Board.
- (b.) Even though the approved number of posts of registered medical officers was 02 and the actual number was 03, action had not been taken to obtain approval for the post that remained in excess.
- (c.) Although the staff required for 07 key posts of the hospital had been approved by the Department of Management Services on 14 March 2016, action had not been taken to fill 21 vacancies of the above posts even by the end of the year under review.

#### **5. Sustainable Development**

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##### **5.1 Achievement of the Sustainable Development Goals**

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Since the Hospital Board was unaware of the Circular No.NP/SP/SDG/17 dated 14 August 2017 of the Secretary to the Ministry of National Policies and Economic Affairs and United Nations Sustainable Development “2030 Agenda” , action had not been taken to identify the sustainable development goals coming under the purview of the Hospital Board, targets to be achieved and the indicators to evaluate the progress of reaching those targets.

#### **6. Accountability and Good Governance**

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##### **6.1 Audit Committees**

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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.

##### **6.2 Procurement and Contract Process**

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###### **6.2.1 Procurements**

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The following observations are made.

- (a) Services at the total contract value of Rs.27,952,476 relating to the maintenance and cleaning service, supply of raw foods, security service, washing of dirty cloths and obtaining a house on rent for the nursing hostel had been obtained during the year under review and in the procurement activities relating to obtaining those service,

respectively in terms of the Guideline 2.3.2 (b) and (c), Guideline 2.11.3, Guideline 2.12 (a), Guideline 3.12.2 (i), (ii) and (iii), Guideline 5.3.1 (a) to (c), Guideline 5.3.2 and Guideline 6.3.6 of the Government Procurement Guidelines;

- (i) Submission of the pre-qualifications of the bidders to the Technical Evaluation Committee for their examination, review and approval as well as preparation of draft bidding documents including the specifications and submission of the same to the Technical Evaluation Committee for the approval had not been carried out.
  - (ii) Minutes of the Procurement Committee and the Technical Evaluation Committee had not been recorded in the prescribed format.
  - (iii) Members of the Procurement Committee and the Technical Evaluation Committee had not signed a declaration of confidentiality and impartiality.
  - (iv) Adequate information for specific identification of criteria of the examination of pre-qualifications and determination of capability of the bidders to successfully perform the contract had not been included in the bid invitation.
  - (v) The Hospital Board had not used an appropriate specimen of standard bidding document and the appropriateness of the bidding documents used in lieu of the standard bidding documents had not been vetted and approved by the Technical Evaluation Committee and the Procurement Committee.
  - (vi) The bid invitation had not been prepared including main eligibility criteria and qualification requirements of the successful bidder.
  - (vii) The proceeding of the bid opening had not been recorded in the prescribed format.
- (b) Although the contract value of the supply of raw food items of the hospital for the year under review amounted to Rs.15,553,860 exclusive of Value Added Tax, actual annual expenditure amounted to Rs.3,848,913. The following observations are made in this connection.
- (i) As bids had been called for by overestimating the monthly raw foods requirement, it had given rise to missing the opportunity of receiving bids from more bidders and the contract had been awarded at a value exceeding 75 per cent of the actual annual requirement of the hospital.
  - (ii) In the evaluation of bids, although evaluation had been done based on the standard price according to the market price index, prices of the bidder selected for certain essential food items had exceeded the standard prices. Nevertheless, attention of the Technical Evaluation Committee had not been focused thereon. In the sample test of 10 dry food items, the exceeding of their prices had ranged from 14 per cent to 53 per cent.

## 6.2.2 Deficiencies in the Contract Administration

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Although the contract period of the contract valued at Rs.12,431,157 for the construction of Laboratory Building of the hospital was 300 days including the formal extension of period, 412 days had been taken thereon. Accordingly, penalty for delay amounting to Rs.672,000 at Rs.6,000 per day should have been recovered in respect of 112 delayed days in terms of the conditions of the agreement. Nevertheless, without being recovered penalty for delays, total amount had been paid other than the 10 per cent retention for the bills of the contractor.

## 6.3 Budgetary Control

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Variances ranging from 51 per cent to 141 per cent were observed between the budgeted and the actual expenditure relating to 15 items and a sum of Rs. 609,325 had been spent for 4 items without allocating provisions during the year under review. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

## 7. Systems and Controls

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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

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Procurement and Contract Administration	Failure to supervise the construction contracts properly and failure to take action to achieve an optimum performance and failure to comply with the Procurement Guidelines in terms of the conditions of the agreements.
(b) Control of Drugs Stores	Failure to take action to maintain proper internal control system for the process from the identification of stock requirements up to receiving, issuing, documenting and accounting the stocks and failure to carry out physical verification of stores properly in an updated manner.
(c) Accounting	Failure to maintain drugs stock control accounts and making adjustments without using journal entries.