

## Lanka Hospital Corporation PLC - 2018

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### 1.1 Opinion

The audit of the financial statements of The Lanka Hospital Corporation PLC, (“ the Company” ), and the consolidated financial statements of the Company and its subsidiary (“ Group”), which comprise the statement of financial position as at 31 December 2018 and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including 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 provisions of the National Audit Act No. 19 of 2018. My comments and observation which I consider should be report to parliament appear in this report.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, 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 Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Company Financial Statements and the Consolidated Financial Statements of the current year. These matters were addressed in the context of my audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

- **Revenue recognition** – Refer to Note 3.13 – accounting policy and Note 5 to the Financial Statements. The Revenue of the Group for the year ended 31st December 2018 was Rs. 7,077 Mn.

#### **Risk Description**

The Group’s revenue generated from its healthcare services is disclosed in Note 5 together with the related accounting policy in 3.13. I considered revenue as a focus area due to the complexity of the pricing structure, its high volume, determination of appropriateness of gross or net basis of revenue recognition in certain arrangements, and reliance on IT

#### **My Response**

My audit procedures included the following, among others;

- I carried out audit procedures over revenue measurement by testing on a sample basis, transactional level pricing and applicable documentary evidence.
- I discussed with management regarding the

controls.

contractual arrangements where consultant medical personnel are involved, and tested on a sample basis the appropriateness of the recognition of revenue on a gross or net basis.

- I obtained an understanding about the key IT and manual controls over the occurrence of revenue and tested the same on a sample basis.
- I performed specific audit procedures over cash collection related to revenue covering a sample of locations where the Group's business is carried out.
- I assessed the adequacy of the disclosures made in Note 5 in the financial statement.

- **Carrying value of inventories** – Refer to Note 3.8– accounting policy and Note 17 to the Financial Statements

The Group carried inventories of Rs. 369 Mn as at December 31, 2018, at the lower of cost or net realisable value.

**Risk Description**

Valuation of inventory involves judgement and estimates due to the nature of products and stringent quality requirements. Due to allocation and sale of inventories within Group operations based on the business model, both existence and valuation of inventories are key areas of focus.

**My Response**

My audit procedures included;

- assessing adequacy and consistency of provisioning for inventories at the reporting date with the Group's inventory provision policy.
- On a sample basis, comparing the carrying amounts of the Group's inventories with net realisation value of those inventories.
- Testing the existence of inventories through physical verification as at year end and validating the cost allocation within Group entities.

- **Recoverability of Trade Receivables** – Refer to Note 3.3.1 – accounting policy and Note 18 to the Financial Statements.

The Group's trade receivables as at 31 December 2018 was Rs.726 Mn

**Risk Description**

Assessment of recoverability of the Group's trade receivables involves based on management judgement. The historical payment patterns and other information relating to the creditworthiness of customers. Inherent subjectivity is involved in making judgements in relation to credit risk exposures to determine the recoverability of trade receivables.

**My Response**

My audit procedures included –

- Testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history and financial information pertaining to the customers.
- Testing the receipt of cash after the year end relating to 31 December 2018 balances; and
- Testing the adequacy of the Group's impairment provisions against trade receivables by assessing

the judgements made and the historical trading experience with the relevant customers.

- Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the impairment provision.

#### **1.4 Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Financial Statements and my auditor's report thereon. My opinion on the Financial Statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial Statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is material misstatement of other information; I am required to report that fact. I have nothing to report in this regard.

#### **1.5 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 Group'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 intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

#### **1.6 Auditor's Responsibilities for the Audit of the Financial Statements**

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 Group'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 Group'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 Group 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 been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.7 Financial Statements

### 1.7.1 Internal Control over the preparation of financial statements.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had not maintained payment vouchers in serial orders.	All company financials are maintaining in "Tally" accounting system therefore all the payment vouchers are generated through "Tally" accounting system. Due to inherent limitation in "Tally" accounting system payment voucher numbers are not constant. Therefore, the company refer cheque number and the date as a serial for all references.	Payment Vouchers should be arranged in serial order.

### 1.7.2 Unreconciled Control Accounts or Records

<b>Item</b>	<b>As per Financial Statements Rs.</b>	<b>As per corresponding Record Rs.</b>	<b>Difference Rs.</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) Revaluation Reserve	962,019,491	962,390,920	371,429	In the beginning there was no detail schedule for revaluation reserve. Therefore we have prepared schedule for revaluation reserve balance but we come across with immaterial difference with the ledger and the schedule. It was decided to ignore difference since it is immaterial. However, we will take necessary action to rectify the difference.	Amounts shown in the Financial Statements should be aligned with the Corresponding records.
(ii) <b>Property Plant &amp; Equipment</b>				Due to the unavailability of the documents it was unable to assign value for the some of the assets and these assets were represents zero value in the fixed assets register. At that time, it was decided and agreed to continue fixed assets register there onwards. When considering fact that differences	Amounts shown in the Financial Statements should be aligned with the Corresponding records.
Differences were observed between balances as per Financial Statements and Fixed Assets Register.					

aroused due to assets acquired prior to 2012 therefore net book value of those assets should be zero after 2022.

## 1.8 Accounts Receivable and Payable

### 1.8.1 Payables

Audit Issue	Management Comment	Recommendation
<p>(i) <b>Age Analysis</b></p> <p>As per the Ledger Account amounts payable to local creditors balance as at 31 December 2018 was Rs. 128,642,513 and as per the age analysis it was Rs. 128,238,113. Hence a difference of Rs.404,000 was observed.</p>	<p>There are few suppliers categorized in TALLY were not link to creditors' age analysis those accounts separately need to adjust and reconciliation provide for said differences.</p>	<p>Amounts shown in the Financial Statements should be aligned with the Corresponding records.</p>
<p>(ii) Although a sum of Rs. 6,236,696 had been shown in the ledger account as payable to a creditor as at 31 December 2018, the balance confirmed by the respective creditor was Rs. 59,465,578. Hence a difference of Rs. 53,228,882 was observed. A sum of Rs. 37,130,914 has been reconciled from the difference and further difference of amounting to Rs.16,097,968 is remained un reconciled.</p>	<p>The difference of the respective creditor's confirmations is due to the cheques process by LHCL but not collected by the supplier without having supplier invoice listing as at balance sheet date we will not able to reconcile the total value. Further supplier may be incorrectly confirmed the balance.</p>	<p>Further difference should be reconciled and keep records.</p>
<p>(iii) Even though the ledger balance of Triad (Pvt) Ltd as at 31 December 2018 was Nil, the respective creditor has confirmed amount due to them as Rs. 2,081,763.</p>	<p>The balance confirmed by Triad (Pvt) Ltd is not correct.</p>	<p>Reconciliation should be made with client records.</p>

## 1.8.2 Advances

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A total balance of provision made for refundable deposit and advances amounting to Rs.3,859,683 had been brought forward over a long period without being cleared.	We will consider clearing up above provision during this year.	Action should be taken to clear the balances.

## 1.9 Related Parties and Related Party Transactions

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Amount due to Related Party (Sri Lanka Insurance Corporation Ltd) amounting to Rs.4,769,076 had been brought forward over a long period without being cleared.	The management will consider the clearing up above balances.	Necessary actions should be taken to clear the balance.

## 1.10 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

<b>Reference to Non-compliance Laws, Rules Regulations etc.</b>	<b>Management Comment</b>	<b>Recommendation</b>
Public Enterprise Department circular PED 1/2015	Fuel allowances had been granted by the Company to the Chief Executive Officer and Chief Operating Officer/ Chief Financial Officer exceeding the limits by 50L and 35L respectively.  The Company had not	As a public listed company, fuel allowance is part of remuneration of the employees. Fuel limits have been defined as per the organization practice which has been there, from the known history. The company fuel entitlement has been decided at the time of recruitment as a part of remuneration package. The total remuneration is negotiated with the candidates including the fuel which should par with the amounts of similar categories and those offered by other public listed companies.  As a state-owned enterprise, the board of
		Action should be taken to get approval from Public Enterprise Department.  Necessary action

Colombo Exchange 7.13.1(a)	Stock Ruling Public Requirement of 20%.	complied with minimum Holding	directors/ company has limited control over its shareholding structure however board has made representation to chairman of SLIC which is the main shareholder. The cabinet approval has been obtained and transferred 3.27% of SLIC ownership to another state- owned enterprise on 9 <sup>th</sup> July 2019. Therefore, the Company is not compliant with Rule 7.13.1. of the Listing Rules of the Colombo Stock Exchange on minimum public holding as at 31 <sup>st</sup> December 2018 and as of 9th July 2019 the company is in compliance with the said rule.	should be taken to maintain future compliance.
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 826,467,460 and the corresponding profit in the preceding year amounted to Rs. 530,271,751. Therefore, an improvement amounting to Rs. 296,195,709 of the financial result was observed. The main reason for this improvement is the increase of the finance income of the company.

### 2.2 Ratio Analysis

	<b>2018</b>	<b>2017</b>
Current Assets Ratio	3.19 times	3.45 times
Quick Assets Ratio	2.90 times	3.15 times
Gross Profit Ratio	44%	45%
Return on Capital Employed	13%	10%
Gearing Ratio	N/A	N/A



## 2.3 Key Performance Indicators

The Company Key Performance Indicators and its achievement are as follows.

	Actual	Budget	Variance
Average length of Stay (Days- Total beds)	2.24	2.48	(0.24)
Average Occupancy Rate	82%	88%	(6%)
Average daily admissions	77	77	-
Total Admissions	28,012	28,221	(209)
Foreign patient admissions	2,848	2,897	(49)
OP Consultations	359,576	385,680	(26,104)
No of Surgeries	10,927	11,238	(311)

## 2.4 Operational Inefficiencies

It is observed that the company had launched a new medical center in Seychelles and its performance for the year 2018 was as follows;

	Rs.
Total Revenue	33,939,542
Cost of Sales	<u>7,185,972</u>
Gross Profit	26,753,570
Other Expenses	29,227,419
Net Profit	<u><u>(2,473,850)</u></u>

It was noted that Seychelles Medical Center has reported a net loss of Rs. 2,473,850 for the period ended 31 December 2018. According to the plan, monthly revenue was Rs. 9,909,507. Contribution margin of total revenue is considered to be 50%. Where IP Contribution taken as 30% by considering group profitability perspective.

## 3. Operational Review

### 3.1 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p><b>Strategic Doctor Payment</b></p> <p>The company had paid Rs.104,450,000 to retain consultants hired from some specialized areas during the</p>	<p>Sri Lanka is a country having consultant driven market rather than hospital driven market. Majority of Sri Lankan patients are consulting their preferred consultants by their names not by the hospital's names. This industry nature will also apply to Lanka hospital as well. To be in the industry leader Lanka hospital need to</p>	<p>Proper Evaluation should be made to check whether the payment is economical.</p>

year under review, while the company paying separately for the jobs that they have performed.

have a partnership with key highly reputed consultants. Patients coming to the hospital around the clock and some patients require specialized medical assistance in urgent basis not like in other business the delaying medical assistance may cost of human life therefore hospital require to have a partnership with industry leading consultants in different specialties.

### 3.2 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation																																	
A considerable delay was noticed when implementing following procurements.	Date given in the budget / procurement plan is only tentative dates. Actual purchased date depends on the actual requirement of the existing equipment / breakdown and procurement process	During project execution the original should be regularly monitored and updated (Procurement Guideline 4.2.1.).																																	
<table border="1"> <thead> <tr> <th data-bbox="118 804 264 831">Description</th> <th data-bbox="501 804 624 871">Total Cost (Rs.)</th> <th data-bbox="668 804 906 871">Planned Date to be completed</th> </tr> </thead> <tbody> <tr> <td data-bbox="118 882 491 987">Purchasing Cath lab &amp; CTOT - Defibrillator with external pacing</td> <td data-bbox="501 882 624 909">1,000,000</td> <td data-bbox="713 882 852 909">2018/02/01</td> </tr> <tr> <td data-bbox="118 999 440 1066">Purchasing Fertility Centre - Laser system for PGD/PGS</td> <td data-bbox="501 999 624 1025">8,700,000</td> <td data-bbox="713 999 852 1025">2018/01/01</td> </tr> <tr> <td data-bbox="118 1077 469 1104">Purchasing NICU - Incubator</td> <td data-bbox="501 1077 624 1104">1,500,000</td> <td data-bbox="713 1077 852 1104">2018/01/01</td> </tr> <tr> <td data-bbox="118 1115 480 1220">Purchasing Communication -Replacing remaining old Non HD Camera and DVR</td> <td data-bbox="501 1193 624 1220">3,800,000</td> <td data-bbox="713 1193 852 1220">2018/08/01</td> </tr> <tr> <td data-bbox="118 1232 496 1299">Purchasing Human Resources System–Cloud (replace HRIS)</td> <td data-bbox="501 1232 624 1258">6,000,000</td> <td data-bbox="713 1232 852 1258">2018/08/01</td> </tr> <tr> <td data-bbox="118 1310 424 1337">Cath lab – Refurbishment</td> <td data-bbox="501 1310 639 1337">30,000,000</td> <td data-bbox="713 1310 852 1337">2018/11/01</td> </tr> <tr> <td data-bbox="118 1348 432 1415">Fire and safety -Repair of underground Hydrant Line</td> <td data-bbox="501 1388 603 1415">100,000</td> <td data-bbox="713 1388 852 1415">2018/05/01</td> </tr> <tr> <td data-bbox="118 1426 456 1494">Housekeeping- Bed Railing/ Bed Head Boards</td> <td data-bbox="501 1467 624 1494">1,250,000</td> <td data-bbox="713 1467 852 1494">2018/01/01</td> </tr> <tr> <td data-bbox="118 1505 443 1572">Engineering 400 TR chiller (supply and install)</td> <td data-bbox="501 1545 635 1572">27,000,000</td> <td data-bbox="713 1545 852 1572">2018/01/07</td> </tr> <tr> <td data-bbox="118 1583 411 1650">Dialysis Unit (Power for all floor area 8C Win)</td> <td data-bbox="501 1624 624 1650">1,000,000</td> <td data-bbox="713 1624 852 1650">2018/01/01</td> </tr> </tbody> </table>	Description	Total Cost (Rs.)	Planned Date to be completed	Purchasing Cath lab & CTOT - Defibrillator with external pacing	1,000,000	2018/02/01	Purchasing Fertility Centre - Laser system for PGD/PGS	8,700,000	2018/01/01	Purchasing NICU - Incubator	1,500,000	2018/01/01	Purchasing Communication -Replacing remaining old Non HD Camera and DVR	3,800,000	2018/08/01	Purchasing Human Resources System–Cloud (replace HRIS)	6,000,000	2018/08/01	Cath lab – Refurbishment	30,000,000	2018/11/01	Fire and safety -Repair of underground Hydrant Line	100,000	2018/05/01	Housekeeping- Bed Railing/ Bed Head Boards	1,250,000	2018/01/01	Engineering 400 TR chiller (supply and install)	27,000,000	2018/01/07	Dialysis Unit (Power for all floor area 8C Win)	1,000,000	2018/01/01		
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### 3.3 Procurement Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the purchase order, 1% penalty per week will be charged if there is delay in delivery of goods but this rule was not successfully implemented.	The Company will take action to amend the Clause as “ LHC may apply 1 % penalty late delivery” to encourage supplier for on time delivery.	Action should be taken to amend the clause.

### 3.4 Management of Vehicle fleet

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>Fuel efficiency rate</b> The rate of Fuel efficiency of selected vehicle was very low.	The management will take necessary actions to request local agents of the vehicle manufacturers to check on this and do the necessary action to increase the efficiency if it is required.	Immediate action should be taken.