

## **1.1 Opinion**

The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Ltd (“Company”) for the year ended 31 December 2018 comprising 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 cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company 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 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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

#### **1.4 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 Company'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 Company'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 Company 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Interest receivable as per audit calculation as at 31 December 2018 was Rs. 6,583,014 but as per ledger it was Rs. 5,534,580. Hence a difference of Rs.1,048,434 was observed.	Adjustment has been done subsequently.	Interest receivable should be computed considering relevant period.

### 1.5.2 Unreconciled Control Accounts or Records

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Inventory At Seychelles Lab	2,595,182	4,264,448	1,669,266	The Company in a process to develop a system.	Amounts shown in the Financial Statements should be aligned with the Corresponding records.

## 1.6 IT General Controls

Audit Issue	Management Comment	Recommendation
The organization's IT system not facilitate to provide the Age analysis of Inventory as at 31 December 2018.	The Existing SRP system does not facilitate to generate the Age analysis report and the company are in the process to develop that feature in the system with the help of LHD IT department.	It should be made improvements to the system.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 254,798,395 and the corresponding profit in the preceding year amounted to Rs. 171,871,852. Therefore, an improvement amounting to Rs. 82,926,543 or increase of the 48.25 percent of the financial result was observed.

### 2.2 Ratio Analysis

	2018	2017
Current Assets Ratio	3.60 times	3.12 times
Quick Assets Ratio	3.24 times	2.94 times
Gross Profit Ratio	52.43%	47.11%
Return on Capital Employed	32.62%	26.04%
Gearing Ratio	N/A	N/A

## 3. Operational Review

### 3.1 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
As a practice the Company use expired medicine for laboratory tests based on doctor's comments.	In certain situation where laboratories are allowed to use expired reagents with strict supervision as an acceptable practice in the industry worldwide.	Should adhere to the industry norms/ practices while maintaining the quality.

### 3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
<p data-bbox="197 315 842 383"><b>LHD/18/00148/MS/P297- Supply and Installing Fully Automated Hematology Analyzer.</b></p> <p data-bbox="197 394 842 770">The above tender was granted to Biomedica (Pvt) Ltd . The quotation of the above company had not signed by an authorized officer of the bidding Company. Failure to sign the bid form and price schedule by the authorized person is affected on the validity of the bid. According to the section 7.8 of procurement manual, some mistake has an effect on the validity of the bid and this is treated as a major deviation. If bid is with a major deviation the respective bid should be considered as non- responsive and rejected.</p>	<p data-bbox="868 394 1267 808">Technical Committee has selected Biomedica (Pvt) Ltd after the evaluation criteria and the lowest quoted supplier for this bid. Rejecting of supplier based on reason mention by auditor will not be a viable decision to the company since the supplier has sign the covering page of bided document.</p>	<p data-bbox="1294 394 1549 539">Government Procurement guidelines should be followed.</p>