

## **Lanka Hospitals Diagnostics (Pvt) Ltd - 2019**

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### **1.1 Opinion**

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The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Ltd (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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**

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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**

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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**

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

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<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Public Enterprise Department circular PED 12	<ul style="list-style-type: none"> <li>• According to the section 9.7, salaries and allowances should be based on approved schemes of recruitments and promotions and no revision would be permitted without the approval of the secretary to the treasury. However, the company had not complied with the requirement.</li> <li>• The section 9.2.d of the circular stated that the Organization Chart and the approved cadre should be registered with the Department of Public Enterprises, General Treasury. However, the Company had not complied the requirement.</li> </ul>	Lanka Hospitals Diagnostics (Pvt) Ltd is a company duly incorporated under the companies act no. 07 of 2007 and operate as a private limited liability company. Further, LHD is a fully owned subsidiary company of Lanka Hospitals Corporation PLC. The Sri Lankan laboratory industry is extremely competitive, and to be successful and be identified as a significant medical laboratory service provider in the field. LHD has to perform its activities in parallel with other private medical laboratories in the market. Hence, LHD has to recruit and maintain talented and competent staff providing competitive salaries and wages, to be competitive in the	Action should be taken to get approval from Public Enterprise Department.

Public Enterprise Department circular PED 1/2015

- Contradictory to the provisions of the public enterprise circular PED 1/2015, telephone allowances had been granted by the Company to the Chief Executive Officer exceeding the limits by Rs.3300.
- Contradictory to the provisions of the public enterprise circular, fuel allowances had been granted by the Company to the Chief Executive Officer and Chief Operating Officer exceeding the limits by 100L and 35L respectively.

market. However, the company is planning to get direction in respect to the said PED circulars from the Department of Public Enterprise to obtain relief with special circumstances due to the above mentioned factors.

Action should be taken to get approval from Public Enterprise Department.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a profit of Rs. 299,707,855 and the corresponding profit in the preceding year amounted to Rs. 254,798,395. Therefore, an improvement amounting to Rs. 44,909,460 or increase of the 14.98 percent of the financial result was observed.

### 2.2 Ratio Analysis

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	<b>2019</b>	<b>2018</b>
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Current Assets Ratio	3.01 times	3.60 times
Quick Assets Ratio	2.74 times	3.24 times
Gross Profit Ratio	58.86%	52.43%
Return on Capital Employed	25.10%	32.62%
Gearing Ratio	32.10%	N/A

### 3. Operational Review

#### 3.1 Transactions of Contentious Nature

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As a practice the Company use Expired medicine for laboratory tests based on doctor's comments.	Expired stock items are being used under strict control over the quality department. This is industry practice and we have a sound Operating Procedure(SOP) that is followed when using expired reagent items.	Should adhere to the industry norms/practices while maintaining quality.

#### 3.2 Delays in Projects or Capital Work

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>																					
<p>Following procurements were not implemented even though they were included in the procurement plan.</p> <table border="1"> <thead> <tr> <th><b>Description</b></th> <th><b>Sub Unit</b></th> <th><b>Scheduled date of commence</b></th> </tr> </thead> <tbody> <tr> <td>1.Slides Storing Cabinet</td> <td>Histopathology</td> <td>January 2019</td> </tr> <tr> <td>2.Manual IHC Steiner</td> <td>Histopathology</td> <td>January 2019</td> </tr> <tr> <td>3. Microscope</td> <td>Royal Hospital Lab</td> <td>1<sup>st</sup> Quarter 2019</td> </tr> <tr> <td>4. Microscope</td> <td>Galle Lab</td> <td>February 2019</td> </tr> <tr> <td>5. Coagulation Analyzer</td> <td>Kurunegala Lab</td> <td>December 2019</td> </tr> <tr> <td>6. Desktop</td> <td>Kurunegala</td> <td>December</td> </tr> </tbody> </table>	<b>Description</b>	<b>Sub Unit</b>	<b>Scheduled date of commence</b>	1.Slides Storing Cabinet	Histopathology	January 2019	2.Manual IHC Steiner	Histopathology	January 2019	3. Microscope	Royal Hospital Lab	1 <sup>st</sup> Quarter 2019	4. Microscope	Galle Lab	February 2019	5. Coagulation Analyzer	Kurunegala Lab	December 2019	6. Desktop	Kurunegala	December	<p>01. Managed with existing capital items. Requirement shifted to year 2020.</p> <p>02. Purchase was delayed and managed with the existing resources.</p> <p>03. Managed with existing capital items. Requirement shifted to year 2020.</p> <p>04. Managed with existing capital items. Requirement shifted to year 2020 budget.</p> <p>05. Kurunegala - New Lab project which is shifted to year 2020.</p> <p>06. Kurunegala - New Lab</p>	<p>During project execution the original should be regularly monitored and updated. (Procurement Guideline 4.2.1.).</p>
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Computers Lab 2019

project which is shifted to year 2020.

7. Equipment Kurunagala December  
Interface Lab 2019

07. Kurunegala - New Lab project which is shifted to year 2020.

### 3.3 Human Resources Management

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#### Audit Issue

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According to the approved carder list of the Company, the actual carder is exceeded approved carder. Details taken for the month of June 2020 are as follows.

#### Management Comment

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#### Recommendation

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Periodically review and take relevant approval for amendments to the Carder.

	<u>Designation</u>		<u>Excess</u>	
1.1	Anuradhapura Lab- Laboratory Technologist	Mini Medical	01	1.1 Budgeted New Recruitments – 2019
1.2	Anuradhapura Lab - Trainee Laboratory Technologist	Mini Medical	01	1.2 Budgeted New Recruitments – 2019
2	Finance - Executive – Finance		01	2. One Finance Assistant was promoted as Executive - Finance in 2020
3	Hematology - Trainee Medical Technologist		01	3. Medical Technologist position is replaced by a Trainee Medical Technologist
4	Kandy Lab - Acting Supervisor Sales Development		01	4 Sales Development Associate is promoted as Acting Supervisor Sales Development
5.1	Logistics - Supervisor Development	Acting Sales	01	5.1 Sales Development Supervisor is replaced by an Acting Supervisor Sales Department
5.2	Logistics - Development Associate	Sales		5.2 Sales Development Supervisor is replaced by a Sales Development Associate

6.1	Marketing - Assistant Manager - Business Development	01	6.1	Senior Executive Business Development is promoted as Assistant Manager - Business Development
6.2	Marketing - Executive - Business Development	01	6.2	Cadre position of Manager Sales is transferred to HR and Executive HR position is transferred to Marketing therefore an extra Executive- Business Development is reflected in cadre, however this change is within the cadre number
7	Microbiology - Trainee Medical Technologist	02	7	Two Medical Technologist position are replaced by a Trainee Medical Technologist
8	Molecular Biology - Acting Supervisor Molecular Biology	01	8	Medical Technologist is promoted as Acting Supervisor Molecular Biology
9.1	Sample Collection - Coordinator Laboratory	01	9.1	Customer Relations Officer is promoted as coordinator Laboratory
9.2	Sample Collection - Senior Coordinator Laboratory	01	9.2	Coordinator Laboratory is promoted as Senior Coordinator Laboratory
9.3	Sample Collection - Supervisor - Phlebotomy	01	9.3	Phlebotomist is promoted as a Supervisor Phlebotomists
9.4	Sample Collection - Trainee Phlebotomist	03	9.4	Three Phlebotomist positions were replaced by Trainee Phlebotomists