Sri Jayewardenepura General Hospital Board -2019

1.1 Disclaimer of Opinion

The audit of the financial statements of the Sri Jayewardenepura General Hospital Boardfor the year ended 31 March 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance , 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 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Board. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report.

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 Board’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 intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Board 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 Institution.

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 Board’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 Board’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 Institute 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;

- Whether the Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board 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 Non-compliances with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) Sri Lanka Public Sector Accounting Standard 01		
(i) According to Section 95(c) of the Standard, reserves including a description of the nature and purpose of each reserve within equity, should be disclosed in financial assets. However, a description on the capital reserve valued at Rs.2.28 million existed as at 31 December 2019, had not been disclosed.	This observation is acknowledged. The reserve was resulted in following the revaluation of a motor vehicle in the year 2002. Action had not been taken to write off the reserve as the vehicle had been sold. Action will be taken to eliminate the reserve from books in the year 2020.	Financial statements for the year 2020 should be prepared and presented by correcting that fault.
(ii) The measurement basis used in preparing the financial statements should be disclosed in terms of Section 132 of the Standard. However, measurement basis relating to the capital works in progress valued at Rs.734.48 million as at 31 December 2019,had not been disclosed.	The accumulated cost of capital works in progress is generally disclosed in financial statements.	The basis of accounting relating to the capital works in progress should be disclosed in financial statements in terms of Sri Lanka Public Sector Accounting Standards. Financial statements for the year 2020 should be

			prepared and presented by correcting that fault.
(b)	Due to failure in annually reviewing the useful life of non-current assets in terms of Section 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets valued at Rs.2,505.61 million had still been in use despite being fully depreciated. The estimated error occurred accordingly, had not been revised in accordance with Sri Lanka Public Sector Accounting Standard 03.	This observation is acknowledged. Assistance of a professional institution should be sought for revaluing those assets by incurring heavy costs. It is expected that assistance of the Department of Valuation will be obtained in this connection, and the assets that can be assessed by them, will be revalued.	Action should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. Financial statements for the year 2020 should be prepared and presented by correcting this fault.
(c)	The accounting policy followed to identify the revenue of the transactions relating to the supply of services should be disclosed in terms of Section 39(a) of the Sri Lanka Public Sector Accounting Standard 10. However, the policy followed to compute the hospital charges of the year under review amounting to Rs. 2,765.65 million, had not been disclosed.	This observation is acknowledged. Most of the fees currently charged for all the services provided by the Hospital, were recommended by the relevant Consultants. Certain fees had been recommended by the Pricing Committee that had become functional from time to time as well. An accurate and permanent pricing policy is not in force. Instructions have been given by the Board of Directors to formulate an accurate pricing policy based on the total cost. Introducing this pricing policy has been delayed due to practical difficulties in identifying the indirect costs such as overheads.	A specific policy should be followed in computing hospital charges, and that policy should be disclosed in the financial statements. Financial statements for the year 2020 should be prepared and presented by correcting that fault.

1.5.2 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	Accrued expenses totaling Rs.5.69 million had not been brought to accounts as at 31 December 2019. Furthermore, accrued professional fees totaling Rs.11.93 million and accrued expenditure on raw foods amounting to Rs.4.84 million had been understated in accounts. Accordingly, the loss of the year had been understated by Rs.22.46 million in the financial statements.	The observation is acknowledged. Action will be taken to correctly account in the year 2020.	All the expenses relating to the year should be brought to accounts under accrued basis. Financial statements for the year 2020 should be prepared and presented by correcting this error.
(b)	Penalties for delay totaling Rs.10.89 million recovered from 03 construction contracts during the year under review had been shown as current liabilities in the financial statements instead of being brought to accounts as income.	The observation is acknowledged. Action will be taken to correctly account in the year 2020.	Financial statements for the year 2020 should be prepared and presented by correcting this error.
(c)	The debit balance of Rs.15.61 million existed in the Hospital Charges Control Account as at 31 December 2019, had been transferred to the Accommodation Charges Account instead of making adjustments by identifying the reasons for the debit balance. Accordingly, the loss of the year had been overstated by that amount.	The observation is acknowledged. The reasons such as, the items brought to the Hospital Charges Control Account could not be reconciled in a timely manner, practical issues occurred in exporting data from the Systolic information system to the Accpac accounting software, and practical difficulty in separating the hospital charges and professional fees from the total charges recovered from the patients by way of cash, credit cards and letters of credit, had attributed to the debit balance of Rs. 15.61 million in the said account. Reconciling the relevant	Action should be taken to correct the deficiencies in the computerized accounting system, and prepare proper methodologies and systems of control relating to the entry of data into the system, and exporting & deleting data. Financial statements for the year 2020 should be prepared and presented by correcting this error.

		accounts monthly has become a highly complex process, and it is expected to improve the two systems through discussions with the engineers of the two systems, thereby making reconciliations.	
(d)	A methodology to be used in accounting the recovery and repayment of professional fees had not been identified. The debit balance of Rs.81.75 million existed in the Professional Charges Account as at 31 December 2019, had been transferred to the Hospital Charges Control Account instead of making adjustments by identifying the reasons for the debit balance. Accordingly, the loss of the year had been overstated by that amount in the financial statements.	The observation is acknowledged. A methodology for separately accounting the recovery and repayment of professional fees had not been followed owing to the accounting practice that had been in existence from the past. In order to make necessary adjustments by reconciling the account balances monthly, it is expected to correctly use the accounting software and the Systolic information system	A methodology capable of specifically identifying and accounting the professional fees included in the hospital charges should be introduced into the computerized accounting software. A proper methodology should be introduced to the Systolic information system in order to separately identify the professional fees paid by way of cash and letters of credit. Furthermore, the relevant accounts should be adjusted through monthly reconciliation of balances. Financial statements for the year 2020 should be prepared and presented by correcting this error.
(e)	Credit balances totalling Rs.23.80 million existed in the Hospital Charges Control Account, and the debit balances totaling Rs.17.36 million existed in the Trade Creditors Account as at 31December 2019, had been settled against the counter balances of those accounts, instead of making adjustments by identifying the reasons for those balances.	This was caused due to failure in correctly recording the receipts of funds from the debtors against the BHT numbers during the initial stages of introducing the accounting software. Action is being taken to identify the	Receipts of funds from the debtors and payment of funds to the creditors should correctly be brought to accounts within the system. Correct balances pertaining to the debtors and

		reasons for credit balances of the debtors as at 31 December 2019.Payments made to the creditors had been correctly recorded in the cash book during the initial stages of introducing the accounting software. However, the failure in correctly recording such payments in the individual creditors' accounts had attributed to the credit balances in the creditors account. Action is being taken at present to correct the said posting errors in the system.	creditors should be disclosed in the financial statements. Financial statements for the year 2020 should be prepared and presented by correcting this error.
(f)	The fixed deposit valued at Rs.12.5 million belonging to the Dialysis Assistant Fund maintained by the Board, had not been disclosed in the financial statements. Instead, that value had been debited to the Dialysis Assistant Fund Account.	The observation is acknowledged. Action will be taken to disclose in the financial statements.	All the transactions relating to the year should be correctly identified and brought to accounts. Financial statements for the year 2020 should be prepared and presented by correcting this error.
(g)	Gratuity allocation totalling Rs.1.28 million made on 05 employees whose services had been suspended in the years 2012 and 2013, was disclosed under the current liabilities; however, allocation of gratuity was increased by a similar value as at 31 December 2019.	The gratuity for those employees had been included in a report prepared for allocating gratuity as at 31 December 2019, thus resulting that error. Corrective measures will be taken in that connection.	Financial statements for the year 2020 should be prepared and presented by correcting this error.
(h)	The cost and accumulated depreciation on medical equipment, elevators, generators, building materials, furniture, wheelchairs and other instruments that had either been sold in the year 2016 at a value unidentified, or sold in the years 2017 and 2018 at values of Rs.4.39 million and Rs.638,100 respectively, had not been eliminated from accounts.	The observation is acknowledged. Due to difficulty in separately identifying the cost and accumulated depreciation of the items eliminated, the profit earned through the sales was recognized as an accounting profit.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards on the non-current assets that had been eliminated. Financial statements for the year 2020 should be prepared and presented by correcting this error.

(i)	The cost of two buildings demolished in the years 2016 and 2017 amounting to Rs.3.63 million, along with the accumulated depreciation had not been eliminated from accounts. Deprecation for the year under review and the preceding year had been made at Rs.72,599 each.	Those buildings had been built at the inception of the hospital. As the cost of several buildings had been computed together, it was difficult to separately identify the costs. Action will be taken to correct the depreciated amounts in the accounts.	Action should be taken in accordance with the Sri Lanka Public Sector Accounting Standards on the eliminated non-current assets. Financial statements for the year 2020 should be prepared and presented by correcting this error.
(j)	The error occurred when the housing rental security deposit of Rs.240,000 paid in the preceding year had been brought to accounts as an expenditure, was not corrected in the year under review.	Corrective measures will be taken in the accounts for the year 2020.	Financial statements for the year 2020 should be prepared and presented by correcting this error.
(k)	The cost of drugs that had become expired as at 31 December 2019 had been brought to accounts as Rs.972,570 whilst the cost of expired dressing materials, surgical materials, laboratory items, and items of radiation had been brought to accounts as Rs.5.25 million. However, according to the reports of the physical stock verification, the said costs amounted to Rs.814,083 and Rs.6.61 million respectively, thus indicating differences of Rs.158,487 and 1.36 million respectively.	Although certain items had become expired, they still remained usable through sterilization (Ethylene Oxide); hence, such items were not considered as being expired in the stock survey. The stock items that had become expired based on the relevant date, were brought to accounts in the existing condition.	The cost of expired stocks should be identified correctly. The proper methodology followed in identifying the expiration of items, should be introduced to the stock survey process as well as the accounting system. Necessary adjustments should be made by identifying the reasons causing the difference thereby preparing and presenting the financial statements for the year 2020.
(l)	A total of Rs.2.80 million received from 04 debtors along with a sum of Rs.635,788 recovered from the salaries of debtors in the staff during the year under review, had been credited to the Hospital Charges Control Account instead of being credited to the Debtor Control Account.	The observation is acknowledged. Corrective measures will be taken in the year 2020. The systems will be adjusted by obtaining further instructions from the software engineer.	Updates of the accounting system should be done promptly while taking action to correctly account the funds recovered from the debtors. Financial statements for the year 2020 should be prepared and presented by correcting this error.

(m)	Hospital charges amounting to Rs.223,245 recoverable from a staff member in the year under review had not been brought to accounts. That sum had not been recovered even by 31 December 2019.	The observation is acknowledged. This patient, a dependant of a staff member, had passed away at the ICU. Action will be taken for the prompt recovery of the arrears. Corrective measures will be taken in the year 2020.	The observation is acknowledged. This patient, a dependant of a staff member, had passed away at the ICU. Action will be taken for the prompt recovery of the arrears. Corrective measures will be taken in the year 2020. Financial statements for the year 2020 should be prepared and presented by correcting the error.
(n)	Although it had been identified that monies could not be recovered from the debtors of Rs. 5.41 million existed as at 31 December 2019, no provision had been shown in the financial statements with respect to the impairment values in that connection.	It is acknowledged that no allocations had been made on the doubtful debts. Action will be taken in due course to make allocations on doubtful debts.	Action should be taken to correctly identify the debtors thus making allocations accordingly in the financial statements thereby preparing and presenting the financial statements for the year 2020.
(o)	A sum of Rs. 16.27 million had been shown in the financial statements as being receivable from the President's Fund from a period prior to the year 2016. However, action had not been taken to make adjustments in the accounts by obtaining information from the President's Fund in that connection, and verify that balance with the President's Fund.	The observation is acknowledged. During the initial stages of introducing the software, the bills pertaining to the President's Fund had not been brought to accounts against the BHT No.s and settled. Action will be taken to reconcile the balances thereby settling the old debtor balances.	Action should be taken to verify those balances through the President's Fund. Reconciliation should be done promptly. The balances should be correctly accounted against the BHT numbers thus settling the old debtor balances.

1.5.3 Non-reconciled Control Accounts or Reports

	Item	Value as per Financial Statements	Value as per Ledger Account	Difference	Comment of the Management	Recommendation
		Rs. Million	Rs. Million	Rs. Million		
(a)	Trade creditors as at 31 December 2019.	577.13	584.96	7.83	The observation is acknowledged. At the time of introducing the Accpac accounting software for the first time in the year 2016, the total of the creditors' balance input into the Creditors Control Account, and the total of the balances input into the individual creditors' accounts, had differed. The said differences occurred due to posting errors that took place until then. In order to identify the correct trade creditor balance before preparing the financial statements for the year 2020, action will be taken to recheck all the entries in the creditors'	Action should be taken to identify and correct the errors in the Accpac accounting software. The individual creditors' balances should be maintained in a manner that it reconciles with the creditors' balances shown in the financial statements.

					accounts since the year 2016, thereby identifying the correct balance.	
(b)	Hospital charges debtors as at 31 December 2019.	216.42	248.51	32.09	Not commented.	Action should be taken to identify and correct the deficiencies in the Accpac software, and the register of debtor balances should be maintained so that the debtor balances in the financial statements are tallied therewith.
(c)	Deposits of the hospital charges as at 31 December 2019.	8.52	8.55	0.03	The total of those deposits was deduced through a report generated by the Systolic system. The reason for the difference will be looked into.	Reasons for the difference between the deposit balance of the hospital charges and the balance of the deposit schedule, should be looked into thereby making the relevant adjustments.

1.5.4 Lack of Documentary Evidence for Audit

	Item	Amount	Audit Evidence not Made Available	Comment of the Management	Recommendation
		Rs. Million			
(a)	Withholding tax recovered from professional fees as at 31 December 2019.	16.57	Ledger Accounts	The relevant schedules/ledger accounts can be made available.	Transactions should be properly recorded in accordance with double entry method. The relevant ledger accounts and schedules should be made available to the Audit.

(b)	Miscellaneous deposits.	4.34	Schedules that can be used to verify the accuracy of miscellaneous deposit balances older than 21 years.	The observation is acknowledged. The institutions, persons, and original copies of the receipts issued with respect to 42 deposits made during the period 1984-2007 could not be found. Action will be taken in the year 2020 to eliminate the relevant deposits from the accounts by obtaining approval of the Board of Directors.	Every endeavor should be made to find information in that connection. Action should be taken to recover the monies deposited.
(c)	Service charges.	0.63	Approval of the Board of Directors recommending to recover only 0.15 per cent of the professional fees as hospital service charges.	The observation is acknowledged. It was not possible to find a written approval of the Board of Directors recommending that 0.15 per cent of the professional fees be recovered as hospital service charges.	Action should be taken to revise the percentage of hospital service charges recovered from professional fees.
(d)	Debtors of the hospital charges and trade creditors as at 31 December 2019.	216.42 577.13	Age analyses of the debtors and creditors prepared by properly disclosing the due period.	The observation is acknowledged. As Accpac does not facilitate the preparation of age analyses by properly disclosing the due period, action will be taken to obtain instructions from the software engineer in that regard.	Age analyses on the debtors and creditors should be prepared by properly disclosing the due period, and presented along with the financial statements.
(e)	Recoveries and payments of professional fees.	289.25 374.54	The ledger accounts being maintained with respect to professional fees payable and already paid.	The observation is acknowledged. Recovery of professional fees in cash is not brought to accounts properly at	Ledger accounts should be prepared for the professional fees payable or already paid. Such values should be disclosed in the financial statements.

				present. Crediting those monies to the Hospital Charges Control Account is a deficiency. Action will be taken to correctly account the recovery and payment of professional fees.	
(f)	The sum receivable from Dialysis Assistance Fund.	1.68	Schedules.	The said sum recoverable to the Hospital from the Dialysis Assistance Fund from the years prior to 2016 has already been received, and hence action will be taken to eliminate from the accounts.	Schedules showing the breakdown of that balance should be made available to the Audit.
(g)	Revenue of drugs from *Osusala* exempted from fees	36.56	Schedules and reports necessary to reconcile the difference of Rs. 9.21 between the expenditure on bills exempted from fees relating to the Hospital staff, and drugs revenue from Osusala exempted from fees.	This observation is acknowledged. As for the reconciliations relating to this, further improvements should be made on the information system of the Hospital.	The information system should be improved enabling the generation of those schedules and reports, thus making the necessary reconciliations. The reports of reconciliation should be presented to the Audit.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
Action had not been taken even by 31 December 2019 to reimburse a sum of Rs. 8.93 million for the years 2017, 2018, and 2019 from the Ministry of Health, Nutrition and Indigenous Medicine for maintaining the University college of health studies.	The possibility of recovering that sum from the Ministry of Health will be looked into. A written agreement relating to the recovery cannot be found.	Action should be taken either to reimburse the amount, or impose surcharges against the officers responsible for proceeding with a written a agreement.

1.6.2 Monies Payable

Audit Observation	Comment of the Management	Recommendation
Action had not been taken either to settle or recognizing as revenue and account 14 sundry creditors' balances valued at Rs.5.31 million &continued to exist over 07 years as at 31 December 2019, seven performance bond deposit balances valued at Rs.800,907, a payable balance of Rs.437,799, and payable professional fees totaling Rs.3.61 million.	As the sum payable to the Water Board was older than 10 years and settlement of that sum is not requested, action will be taken to eliminate the sum from the accounts. The sum of Rs.155,100 deposited by miscellaneous institutions in favour of their patients cannot be eliminated from the accounts. It will be necessary for the retention monies to be paid back. Although the professional fees payable are older than 20 years, the documents have been taken away by a group of investigators to examine the irregularities in paying the professional fees. Action will be taken to look into the other miscellaneous creditor balances and performance bond deposits thereby eliminating them from the accounts or making adjustments. As the remaining amount is a balance older than 25 years, it will be eliminated from the accounts.	The creditors and the institutions should be inquired before the monies payable are recognized as revenue and bring into accounts. Based on the response, action should be taken either to settle, or recognize as revenue and bring into accounts.

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

	Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(a)	Cabinet approval granted on 11 July 1984 for the Cabinet Paper, No. අමප/ 1984/335(2), and internal Circular, No. 08/2010, dated 28 June 2010.	Professional fees should be charged only for the patient care services rendered by the Consultants external to their normal working hours. In case of any professional fees charged on patient care services rendered in the normal duty hours, such fees should be credited to the revenue of the Hospital.	Due to patients' complications, there are instances in which the surgeries commenced before the normal duty hours do proceed until the usual duty hours. Action will be taken to apprise the Board of Directors in this connection thus further	A specific methodology should be established to ensure that professional fees are paid only for the patient care services rendered external to the normal duty hours. The professional fees

		However, Medical Officers and other staff members had involved in private patient care during the normal duty hours and earned professional fees totaling Rs. 2.229 million during the year under review, but that amount had not been credited to the hospital revenue.	streamlining the relevant rules and regulations.	recovered on the patient care services rendered within the normal duty hours should be credited to the revenue of the Hospital in accordance with provision of Circulars.
(b)	Establishments Code of the Democratic Socialist Republic of Sri Lanka.			
	(i) Section 2.1 and Sections 2.2-2.6 of Chapter II.	As for posts in every service and grade of the staff, Schemes of Recruitment should be prepared by including information such as, qualifications, salary scale, age limit, and other relevant facts. Action should be taken to obtain approval thereon by following the procedure mentioned in the Establishments Code. However, Schemes of Recruitment had not been prepared and approval had not been obtained even up to 31 December 2019.	The observation is acknowledged. A Scheme of Recruitment had been prepared in accordance with the provisions set out in Public Administration Circular, No. 06/2006 and forwarded to the Department of Management Services on 18 September 2012. The Board of Directors has decided to prepare Schemes of Recruitment for all posts of the Hospital, and entrust a skilled officer with appointments, promotions, transfers, and disciplinary actions.	Action should promptly be taken to prepare Schemes of Recruitment and promotion, and obtain approval thereon by following the procedure mentioned in the Establishments Code of the Democratic Socialist Republic of Sri Lanka. Special attention of the management should be brought on the administration of the staff and reminders should be sent from time to time on the requests made to the Department of Management Services.
	(ii) Sections 1.2 and 1.3 of Chapter II.	An appointment or a promotion can be made only for a post in the approved cadre, and new posts should be created after being approved by the Treasury. However, without obtaining	The observation is acknowledged.	Action should be taken either to annul the posts created without being approved by the Treasury, or obtain approval on those posts.

		such an approval, 02 new posts had been created in the preceding year, and 08 persons had been appointed to the staff.		
(iii)	Sections 1.4 and 1.6	Approval of the Director of the institution along with the Treasury approval should be obtained to change the title of a post. However, without doing so, the official titles of 13 posts in the management level had been changed. New recruitments had been made for 2 such posts under the newly-changed title. Salaries and allowances not approved, had also been paid.	According to the new administrative structure of the institution, the Board of Directors had decided to change the titles of the posts held by the managers with the objective of creating modern administrative posts. It was decided at the meeting of the Board of Directors held on 28 March 2019 to revert the names of posts to the former ones with effect from 24 June 2019.	In case of a necessity to change the official title of a post, action should be taken in accordance with the instructions given in the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
(c)	Treasury Circular, No. 842 dated 19 December 1978.	A Register of Fixed Assets had not been maintained in accordance with the Circular.	Preparation of a Register of Fixed Assets in accordance with the Circular is practically difficult, but a register has been prepared by including diverse information. Action will be taken to further improve that register.	A Register of Fixed Assets should be prepared so that all the information relating to the fixed assets could be observed.
(d)	The general Circular Letter, No. 02-72/2001 of the Director General of Health Services, dated 02 July 2001.	As for the payments made to the laboratory orderlies on piece rate basis for the specimens prepared by them after the normal duty hours, payments should be made based on the number of specimens prepared. Nevertheless, payments had been made by considering the	As for all the tests carried out by the laboratory orderlies after the normal duty hours, payments were made by considering that the meanings of both "specimens" and "tests" were similar. At present, overtime	Payments should be made only for the specimens permitted by the relevant Circular. A monthly report relating to the specimens prepared in the night time should be furnished along with the

		number of tests carried out using those specimens. The total of allowances paid to 15 laboratory orderlies contrary to the Circular, during the year ended 31 December 2019, amounted to Rs.954,380.	payment is made to them in accordance with a decision taken by the Management Committee at the request of laboratory orderlies.	voucher. Overpayments already made should be recovered.
(e)	General Circular, No. Q2-84/2006 of the Director General of Health Services, dated 10 May 2006.	Allowances totaling Rs.583,740 had been paid to 07 laboratory technicians on piece rate basis in regard of 25,944 tests carried out with blood samples collected at the mobile services of the blood bank. However, those tests were not verified to have been necessarily carried out during night time external to the normal duty hours.	As new kinds of tests are newly introduced, a sum of Rs.22.50 can be requested for any test carried out external to the normal duty hours. The vouchers for requesting such allowances have been signed by the relevant Consultant in each division and the Chief Consultant of the laboratory thus confirming the accuracy.	Tests should be carried out only after verifying that those tests are essentially necessary to be carried out during night time external to the normal duty hours.
(f)	Letter, No. DMS/1758-Vol.1 of the Department of Management Services, dated 10 October 2016.	The proposals to restructure the approved cadre should be prepared and forwarded to the National Salaries and Cadre Commission thereby obtaining approval of the Department of Management Services. However, it had not been so done even by 31 December 2019.	The observation is acknowledged. It has been decided to prepare Schemes of Recruitment for all posts of the Hospital, and entrust a skilled officer with appointments, promotions, transfers, and disciplinary actions. It is possible for all those deficiencies to be corrected in due course. Action will be taken to obtain approval of the Department of Management Services for those recruitments.	As per instructions of the Department of Management Services, the proposals relating to the restructure of approved cadre, should be forwarded to the Department of Management Services, thereby obtaining approval.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a loss of Rs.108.27 million as against the profit of the preceding year amounting to Rs.117.08 million. Accordingly, a deterioration of Rs.225.35 million was observed in the financial result. Although the expenditure of the year under review had increased by Rs.750.35 million, the increase in the revenue had only been Rs.524.99 million, thus resulting in the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	A sum of Rs.2,766 million had been recognized as revenue from hospital charges for the year under review. Nevertheless, the Hospital Board had not taken action to formulate a comprehensive revenue collection policy by facilitating the activities such as, identification of costs incurred in computing those hospital charges, deciding on the profit margin, exemption on fees, deciding on the levels of authority for revising the charges, and integration of security features in the software used to account the revenue. As such, miscellaneous adjustments had been made to the Hospital Charges Account in the year under review as well as the preceding year without authority, but attention of the Board had not been brought thereon.	Many of the fees currently charged on all the services provided by the Hospital were recommended by the relevant Consultants in different times. Some of the prices were also recommended by the Pricing Committee that became functional from time to time. An accurate and permanent pricing policy is not in effect. Introduction of the pricing policy has been delayed to due to practical difficulties in identifying the indirect expenses such as overhead expenses. The Board of Directors has instructed to establish an even accurate pricing policy based on the total cost.	A pricing committee should be appointed to decide on the fees charged on miscellaneous tests, surgeries and other services provided by the Hospital for patients. Approval of the Board of Directors should be obtained for the fees decided by the pricing committee and to revise the fees. A pricing policy should be identified covering the total cost and integrated into the software.
(b)	Once the data and reports required to prepare the financial statements are obtained, the facility to change the settings in the Systolic software had not been locked.	It is practically difficult to lock the Accpac software monthly. Once the final accounts are prepared, the facility to change the system has been locked.	Once the data and reports required to prepare the financial statements are obtained, action should be taken to lock the facility to change the settings in the Systolic software.

(c)	With respect to the heart surgeries performed in the year under review on patients referenced by the Ministry of Health, a sum of Rs.94.381 million remained to be reimbursed from the Ministry. However, the two parties had not brought their attention on aspects such as, deciding on those patients' surgeries, laboratory tests, period of stay, and fee structure to be charged for other tests. Surgeries had been performed on patients referenced by the Ministry of Health with no prior agreement at all.	Both parties have done reconciliations as to the amount to be reimbursed from the Ministry relating to the heart surgeries performed since the year 2011, thus reaching an agreement as of now. However, as discussed at the meeting of the audit committee of the Ministry of Health held recently, it is expected to make reimbursements more formally by obtaining a separate Head of Expenditure for the Ministry.	A specific methodology, with consent of the Ministry of Health, should be introduced as to how surgeries are performed on patients sent to this Hospital by other hospitals through the Ministry of Health, and the manner in which the fees recoverable should be reimbursed from the Ministry of Health.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
The facts that 16,255 units of stocks comprising drugs, and surgical items costing Rs.2.042 million existed in 30 different divisions of the Board had been understated in the information system as at 31 December 2019, and another 15,733 units of stocks costing Rs.893,335 had been overstated in the information system, were revealed in the comparison made between the stock reports generated by the information system and the reports of the physical stock verification carried as at 31 December 2019. As such, it was observed that the methodology for administrating the information system on stocks was not in place properly.	This situation has taken place due to errors occurred when stocks were input into the information system based on the reports of the physical stock verifications. As long as the custodians of stocks failing to input the stocks of consumer items into the information system in an up-to-date and accurate manner, such practical issues continue.	Measures should be taken to ensure proper functioning of the methodology used to administer the information system relating to the stocks such as drugs and surgical items.

3.3 Idle or Underutilized Property, Plant and Equipment

	Audit Observation	Comment of the Management	Recommendation
(a)	Ten tablet PCs purchased on 22 March 2018 by spending a sum of Rs.310,000 with a view to collecting information on the progress in patient care service, and 11 tablet PCs purchased on 09 August 2017 at a value of Rs. 245,718 in order to be used for the Early Warning System expected to be implemented, had not been used for the intended purposes even by 30 June 2020.	The project to collect information on the progress in patient care service had been temporarily halted following a decision taken by the management. Due to technical glitches in the software of the Early Warning System, that project too had been halted halfway. Six tablet PCs have been made use of for the technical methodology followed in the Hospital for Covid 19 patient care service. In order to implement the reports of the Board of Directors in accordance with a new technical methodology, 09 tablet PCs have been used by the Directors at present. The rest of the 06 tablet PCs are scheduled to be used for the Clinic Management System expected to be implemented in due course.	Those tablet PCs should be made use of properly.
(b)	A sum totaling Rs.21.558 million had been spent during 2016-2019 for purchasing software to install an electronic document management system, scanning data, social media management and staff allowances. However, the software had not been used for fulfilling the intended purpose even by 31 December 2019, and the cost incurred thereon had become fruitless. Furthermore, 25 laptops valued at Rs.2.82 million and purchased on 03 October 2018 with a view to making diagnoses with bead head tickets and test reports of the patients through that system,	As it was alleged that irregularities occurred with the procurement relating to the work of scanning the bead head tickets, many an inquiry was launched by several divisions including the financial crimes division and the Presidential Commission to look into that. As such, the work of scanning the bead head tickets was temporarily halted following 2 letters signed by the then Chairman. As the recommendations of the inquiries have not been received thus far, recommencing the process is problematic. In this context, action was taken under approval of the management to use the 23	Action should promptly be taken either to make use of the information system for its intended purpose or other productive activity.

storing the relevant data and information in the system, and maintaining the clinics and patient care services, had not been made use of for the intended purpose.	laptops purchased by the Hospital for the primary objective, for other requirements of the Hospital. The information of the scanned bead head tickets of the patients is stored in the information system of the Hospital in a usable manner, and such data could be made use of productively; hence, the expenditure incurred thereon is not fruitless.	

3.4 Procurement Management

	Audit Observation	Comment of the Management	Recommendation
(a)	When the Arthroscopy set with Full HD Camera System had been purchased for the Orthopedic theatre on 06 March 2019 at a value of Rs. 14.46 million, a sum of Rs. 12.95 million had been spent in excess of the estimated cost, and the procurement had been carried out contrary to Guidelines, 2.11.1 (c), 4.2.2, 4.2.3, 6.3.3 (a) & 6.3.6 of the Government Procurement Guidelines. Furthermore, the instrument purchased lacked the mandatory requirements. Furthermore, 11 licenses obtained by the relevant bidder from the National Medicines Regulatory Authority for the import of accessories in the said instrument, had become expired at the date of opening the bids. Penalties for delay amounting to Rs.144,558 had not been recovered in accordance with the agreement as well.	The observation is acknowledged. The estimated value had been provided by the end user based on his requirements, knowledge, and market information. The cost of instrument would change at the time of calling for quotations after preparing the specifications. Such changes had not come under the attention of Technical Evaluation Committee or Procurement Committee, and this situation would be taken into account in the future procurements. The requirements necessitated by the Guidelines in the Procurement Guidelines were fulfilled though, it was not done properly. Many technical specifications were not properly mentioned by the Hospital. Although there were some deviations from certain technical specifications, they could be deemed trivial. Recommendations made by the Consultant were correct, and the minimum bid was selected. The Technical Evaluation Committee drew their attention only on the NMRA certificate of the	Cost estimates should be prepared in a realistic manner, and action should be taken as always as possible to make procurements by not exceeding the estimated value. In case of the actual cost changing quantitatively, action should be taken to revise the estimate and obtain approval. The Government Procurement Guidelines should be followed for all the procurements. Specifications should be prepared in accordance with requirements of the institution and action should be taken not to include the specifications not essentially necessary as being mandatory in the bid documents. Priority should be given to the compliance with specifications rather than the price in evaluating the

		instrument. The relevant institution had made a request in regard of the penalties for delay, and having considered that, the then administration of the Hospital had not recovered penalties for delay thus making the payments.	bids. The bidders who failed to furnish relevant licenses along with the bids should be rejected from being evaluated. The relevant penalties for delay should be recovered in accordance with conditions set out in the contract.
(b)	Two ventilators of the model “Maquet Servo” had been purchased on 06 July 2018 at an expenditure of Rs.18.24 million to be used at the Cardiac Intensive Care Unit. This Procurement had been done contrary to the Guidelines, 1.2, 2.3.1, 2.3.2, 2.5.1(d), 2.6.1(a), 2.7.5, 2.12, 4.2.2, 5.3.19, 5.6.2, 6.3.6, 7.7.1, 7.11 & 8.9.1of the Government Procurement Guidelines. The selected bidder had not obtained the registration certificate of the National Medicines Regulatory Authority for the relevant instrument, nor had obtained the authority to become the local agent in terms of Paragraph 2.1 and 2.2 of the Procurement Guidelines relating to the supply of medicines and medical instruments. Furthermore, having deviated from Guideline 5.6.2 of the Government Procurement Guidelines, the specification had been prepared in a manner favorable to that bidder. As such, the minimum bid had been turned down with the maximum bid selected, and hence, the Board had to incur an additional cost of Rs. 12.3 million. The training requirements of the instrument had not been brought	All possible measures are taken to carry out procurements in accordance with the Procurement Guidelines, but there could be instances on non-compliances with certain Guidelines due to the large number of quotations called within a year. The deficiencies pointed out are already being rectified. A letter of no objection has been issued by the National Medicines Regulatory Authority. The Head Office of the manufacturer of the said Ventilators was established in Sweden, and the approved license of the relevant product was issued by that office. Although the manufacturer was shown as Sweden in the registration certificate issued by the National Medicines Regulatory Authority, the instrument was imported to be distributed in Sri Lanka through the office established in Singapore for the South Asian region. The relevant address shown by the National Medicines Regulatory Authority was that of the office for the South Asian region. Based on the requirement of the Hospital (NAVA Mode), the specifications were prepared under consent of all the members of the Technical Evaluation Committee. Being the end user of the instrument, the Consultant Anesthetic, also a	The Government Procurement Guidelines and the Guidelines for procuring medicines and medical instruments should be adhered to. The Hospital should demand the bidder that the certificate given by the relevant mother company to the effect that the selected bidder was the local agent in Sri Lanka for the relevant instrument, be made available. Specifications should be prepared so that a specific and summarized definition could be presented. Prior to purchasing an instrument with advanced technology at an additional cost, the productivity thereof should be taken into consideration by the Technical Evaluation Committee and the Procurement Committee. An explanation should be presented as to the additional cost incurred by the Hospital due to this Procurement. Furthermore, the management of the

	to the attention of the Technical Evaluation Committee. It was further revealed that an additional cost would incur had EDI Catheters been used for the instrument. The instrument remained underutilized even after a one year since the date of purchase.	member of the Technical Evaluation Committee explained the requirement in writing. The said NAVA Mode was not necessary for every patient, and has to be used on necessity.	Hospital should draw its attention on the minimal utilization of the instrument due to lack of training given to the staff.
(c)	The AF Ablation system for the Cardio Thoracic Operation Theatre unit had been purchased on 06 March 2019 at an expenditure of Rs.17.21 million from a supplier who lacked prior experience in the supply of such instruments. A memorandum of understanding had not been entered into with the bidder in terms of Guideline 7.12.4 of the Government Procurement Guidelines. Although it was mandatory to obtain the registration certificate of the National Medicines Regulatory Authority for supplying that instrument, the selected bidder had not obtained such a certificate, and no evaluation had been made on the bidder's technical staff who had been entrusted to provide after sales services. The Foot Switch, an essential accessory for the instrument, had not been supplied. Furthermore, action had not been taken to provide service manuals required to use the instrument, nor had a training been provided for the Consultant in terms of the conditions agreed. The instrument remained unused over a period of one year, and action had not been taken to recover a sum of Rs. 516,405	This instrument and the relevant technology had been established in the Hospital for the first time in Sri Lanka. As such, it is unrealistic to look into previous experience. Although a memorandum of understanding had not been entered into with the bidder, the matters agreed upon with the bidder had been informed to the Hospital by the bidder in writing, and the Hospital accepted them. As the registration certificate of the National Medicines Regulatory Authority had not been received at the time of calling for tenders, the instrument was cleared from the Customs by making use of the Letter of No Objection issued by that Authority. It is acknowledged that the Technical Evaluation Committee had not drawn their attention on the capability of the bidder to provide after sales service, and his technical staff. The Consultant recommended that the Foot Switch was not essential. Although it was mandatory to provide the service manual, the technology used in highly technical instruments is not made available to another institution; as such, the service manual had not been provided. Although training had been planned in the preceding year, the institution had agreed to provide that training in due course	Non-realistic requirements should not be mentioned in the bid invitation. It should be deemed as a responsibility of the Technical Evaluation Committee to examine as to whether the requirements mentioned in the bid invitation have been satisfied. Instructions of the Procurement Guidelines should be followed. Action should be taken to enter into a memorandum of understanding with respect to agreements of significance. It is a responsibility of the Technical Evaluation Committee and the Procurement Committee to ascertain that the bidder meets the essential requirements mentioned in the technical specifications, and the instrument supplied should be examined for its compliance with technical specifications. Action should be taken to obtain the relevant training in accordance with the technical specifications. Disciplinary action should

	that should have been recovered due to delay in supplying the instrument.	owing to Covid 19 outbreak. All the accessories of the instrument had not been received completely. Staff of the theater had not been provided with relevant training until 2020.07.27. Owing to the delay in obtaining the Letter of No Objection from the NMRA, an extension period of one month had been granted by the Hospital; as such, no penalties for delay had been recovered.	be taken against the officers who had recommended and approved the full payment for the instrument although the instrument had been received incompletely, and the staff of the theater had not been provided with the necessary training.
(d)	The purchase order for 08 ICU beds to be used in the Cardiac Intensive Care Unit totaling Rs.1.37 million at Rs.171,200 per bed had been issued on 07 September 2017. The beds should have been supplied within a period of 6-8 weeks since the issue of the order, but the supplier had neglected doing so. However, due to failure in obtaining a performance surety and entering into an agreement in terms of Guidelines 5.4.10 and 8.91 of the Government Procurement Guidelines, no legal measures could be taken against the supplier. Instead of taking action to obtain the supply from the second lowest bid, a different supplier had later been selected, thus incurring an additional cost of Rs.2.54 million.	Considering the failure of the supplier in providing a performance surety, signing the agreement, and supplying on time, the Hospital has taken measures to deem the supplier as being "Default" in terms of Guideline 8.11.6 of the Government Procurement Guidelines thereby avoiding him from participating in the tenders relating to the supply of such instruments for a period of 02 years. Three out of 08 bidders who had provided the lowest bids in the preliminary evaluation, failed to fulfill the specifications at the technical evaluation; hence, they were removed from the preliminary evaluation. As the said tenderer's order had become cancelled after a period of one year from the date of opening the tender, a new procurement was made.	Action should be taken in accordance with the Government Procurement Guidelines. As for the bidders failing to follow the terms and conditions of the bid, action should be taken in accordance with Guideline 8.11.4 of the Government Procurement Guidelines.
(e)	When an operating theatre table for the Cardio Thoracic Operation Theatre had been purchased on 23 July 2019 at an expenditure of Rs.9.18 million, a sum of Rs.5.18 million had been spent by exceeding the estimated expenditure of Rs. 04 million. Furthermore, the	A sum of Rs.4 million had been estimated thereon in the Procurement Plan for the year 2018, but except for one of the bidders rejected, the bid values of other 06 bidders were higher than that. The Procurement Committee primarily drew their attention on the recommendation made by the	The procurement should be made within the estimated expenditure. In case of the estimate being exceeded, it should be revised and approval should be obtained. The lowest bid which is compliant with

	purchase had been made from the highest bidder without any acceptable reason; as such , an additional cost of Rs.2.31 million had to be incurred.	Technical Committee whereas the estimated value was not taken into consideration. An even more loss would have occurred had a product not compatible with the requirements been purchased by solely considering the lowest bid by disregarding the end user's recommendations. A careful attention had been drawn by the Technical Evaluation Committee on the recommendations made by the end users.	specifications and other requirements should be selected in terms of provisions of the Government Procurement Guidelines. A formal inquiry should be conducted on spending an additional cost of Rs. 2.31 million as the purchase had been made from the highest bidder sans any justifiable reason.
(f)	A sum of Rs.2.22 million was paid on 07 June 2019 to the contractor who had widened the gates of the vehicle park. According to Section 2.14.1 of the Government Procurement Manual relating to works up to Rs.10 million worth, sealed bids, not less than 05, should be obtained from contractors registered under shopping method. Nevertheless, bids had been called only from 03 contractors. Furthermore, closing of accepting bids had not been done on a date published previously, and bids had not been opened in public.	The Procurement had been made on the instructions of the then Hospital Director in the year 2016 following a decision taken by the Board of Management of the Hospital. Having considered as being highly urgent, a limited number of bids had been called, and that had not been done in accordance with the provisions of the Procurement Guidelines.	When bids are called according to shopping method, action should be taken in accordance with instructions given in the Procurement Manual related to the Government Procurement Guidelines. Disciplinary action should be taken against the officers who contradicted the Procurement Guidelines.

3.5 Deficiencies in Contract Administration

Audit Observation	Comment of the Management	Recommendation
The laundry service contract had been awarded to a contractor at a monthly cost of Rs. 1.4 million for the ensuing period of one year from 01 April 2019. Contrary to the bid conditions, action was not taken to request the contractor for quality certificates obtained from Sri Lanka Standards Institution,	The observation is acknowledged. According to the report issued by the General Chemical Industries on the chemicals used by the contractor for washing, those chemicals were compliant with the standards of the Sri Lanka Standards Institution. Instructions have been issued by the Laundry Supervisor to examine the	According to the bid conditions, the Hospital should verify through certificates obtained from accepted institutions that the materials used by the contractor are compliant with the standards. The responsibility to ensure that the contractor adheres to the

Industrial Technology Institute, or an acceptable university to the effect that the chemicals being used by the contractor were compliant with the specified standards, nor had the chemicals used by the contractor been examined and approved by the Laundry Supervisor of the Hospital. Furthermore, action had not been taken to record the arrival and departure of the staff employed by the contractor through the fingerprint scanner of the Hospital, and verify in writing that all the employees were inoculated for Hepatitis-B before being recruited.	chemicals. They possess certificates that they had been inoculated for Hepatitis-B, and it is the responsibility of the company either to inoculate or not their employees.	bid conditions should be entrusted to the Laundry Supervisor. The Hospital should consider it their responsibility to verify in writing that all the employees in the laundry are inoculated for Hepatitis-B.

3.6 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
The Board of Directors is not authorized to make recruitments to the posts not approved by the Department of Management Services and pay the salaries not approved. However, the Board of Directors had authorized to appoint the Human Resources Manager (Operations) to attend to the duties of the post of Head of Human Resources that had not been approved by the Department of Management Services, and pay ¼ of the initial salary pertaining to the post the duties of which had been attended. Even when an appointment is made formally to attend to the duties of a post in terms of Section 12.3 of Chapter VII of the Establishments Code, such an	The gratuity allowance of the officer has been suspended following a report of an investigation conducted externally in that connection.	Appointments should not be made to the posts not approved by the Department of Management Services, and salaries should not be paid for such posts. Even when an appointment is made by formally approving the post, allowances should be paid in accordance with the provisions mentioned in the Establishments Code. As such, the overpaid salaries and allowances should be recovered.

officer should be paid only two thirds of the one forth allowance of the initial salary pertaining to the post the duties of which are attended. However, the said officer had been paid the full allowance, and transport and fuel allowance equivalent to ¼ of the initial salary of the post of which the duties had been attended. The allowances so paid for a period of 20 months totaled Rs. 1.82 million.

4. Accountability and Good Governance

4.1 Audit Committee

Audit Observation	Comment of the Management	Recommendation
Meetings of the Audit Committee should be held once per three months in terms of Public Enterprises Circular, No. 55 dated 14 December 2010. However, meetings of the Audit Committee had not been held from 26 September 2018 to August 2020.	Once the Audit Committee meeting had been held on 26 September 2018, the Board of Directors had changed following the political environment in the country, and the Covid 19 outbreak occurred; hence, the Audit Committee did not assemble. Although measures have been taken to conduct the Audit Committee meeting as of now, the Treasury representative-being the Chairman of the Audit Committee, has resigned from the Board of Directors, and hence, conducting the Audit Committee meeting is not possible again.	Action should be taken to conduct Audit Committee meetings in accordance with provisions of the Circulars