

Lanka Hospital Diagnostics (Pvt) Ltd - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Hospitals Diagnostics (Pvt) Ltd (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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 intends 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 Audit Scope

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.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a profit of Rs.1,174,153,479 and the corresponding profit of Rs.355,188,701 in the preceding year. As such, an improvement of Rs.818,964,778 was observed in the financial result. The operational revenue had increased by Rs.1,772,214,730 thus causing the said improvement.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
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(a) The implementation of marketing activities planned by the company in the year under review was as low as 59 percent.	Due to the prevailing pandemic, planned work was hindered.	The Plan should be periodically reviewed and amended accordingly and get approved.
(b) Three Laboratories out of seven laboratories had not reached their targets for the year under review. Achievement in these three laboratories was 70 percent to 23 percent.	Due to lack of facilities unable to achieve targets.	need to achieving the targets.
(c) Eight routes out of Forty two routes introduced by the Company in the year 2020 had not achieved their targets for the year under review. Achievements in these eight routes were 68 percent to 23 percent.	Routes were started in December 2020 and were in the introductory stage in 2021. The growth was hampered by lockdowns for more the four months in 2021.	-do-

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>The company own procurement manual had been introduced with effect from June 2021 and before introducing procurement manual Government Procurement Guidelines were used. The following observations made with regards to the procurements of the Company. The following observations are made.</p>		
<p>(a) As per guideline 4.2 of government procurement guidelines, the procurement plan had not been prepared and approved.</p>	<p>From the beginning of year 2021, the draft entity specific procurement manual & MOFA have been executed. The annual CAPEX budget has been approved by Board of Directors.</p>	<p>The procurement plan should be prepared and revised from time to time as required.</p>
<p>(b) As per guideline 2.12 of the Government Procurement Guideline and the section 6.5 of the company's procurement manual, all the members of Bid Evaluation Committee are required to sign a declaration in the prescribed format its first meeting. However, 07 procurement from selected sample had not complied with this requirement.</p>	<p>We have taken corrective actions to streamline the process to obtain declaration from BEC for high value procurement which are over 03 Million Rupee thresholds. It will be practiced in future procurements as well.</p>	<p>Need to take actions to comply with applicable rules and regulations.</p>
<p>(c) One quotation was received with regard to the Procurement of Supply & Installation of furniture and partition work at Dalukotuwa COCO Center which quoted price is higher than every other COCO centers. However without looking for more quotation, the procurement was awarded to that supplier.</p>	<p>The reason for refraining from rebidding process was because the project had to be finalized immediately and it was done within a curfew situation.</p>	<p>Need to take actions to attract more suppliers.</p>

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) A shortage of 83 numbers of actual staff was observed with compared to the approved carder. Out of 83 of the available vacancies 15 vacancies are in Medical Technologist cadre and 43 in the Phlebotomist cadre.	Due to the pandemic situation, the country was in lock down for extended periods of time. Therefore, deployment of staff was strictly done on a needs basis.	Approved carder should be reviewed periodically and should make necessary amendments.
(b) Even though the Company planned department wise 66 training programs by allocating Rs.5.494 Million, conducting the training programs was as low as 40 percent.	Training calendar was disrupted due to the pandemic as mass scale gathering were curtailed.	The training program plan should be revised. Attention should be paid to the possibility of using online methods.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
According to section 17 of the National Audit Act No.19 of 2018, the Annual Report of the Company had not prepared.	The company is fully own subsidiary of Lanka Hospitals Corporation PLC. Further LHC published its annual report with information relating to Lanka Hospital Diagnostics (Pvt) Ltd as well. Therefore, separate annual report not published for LHD.	Need to be complied with applicable Acts.