

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 2023 comprising the statement of financial positions at 31 December 2023 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 2023, 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.

1.5 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) Trade debtors balance as at 31 December 2023 was Rs.678,584,868 and deduction of impairment loss on trade Debtors as at 31 December 2023 was Rs.27,545,421. Since the debt period of the hospital is 30 days, the value of the debts exceeding 60 days amounted to Rs.19, 964,254 .	An adequate provision has been made to cover the possible loss from these outstandings.	Steps should be taken to recover the due amount within the credit period.
(b) Debtor balance worth of Rs. 5,024.446 had been written off during the year 2023. The following observations were made.		
<p>I. Rs.1, 634,000 receivable from the two clients for laboratory tests had been written off and it was observed that it was caused that the lack of supporting document proceeding for legal action and written off due amount.</p>	<p>Due to high PCR volume handled during Covid period 2021/22, some payment guarantees issued by the following corporate clients remained untraceable from both ends. After all attempts failed to track the supporting, It was decided to write off the balance.</p>	<p>Steps should be taken to keep records and documents relating to balances due from debtors.</p>

II.	Balance due from two corporate clients bad debt provision was as at 31 December 2023 valued at Rs 1,114,690. During the Covid period, payment guarantees issued for the corporate client remain untraceable and due amount had been written off. It was observed that reason of the lack of documentary evidence.	Due to high PCR volume handled during Covid period, 2021, some payment guarantees issued by the following corporate clients remained untraceable from both ends. After all attempts failed to track the supporting, it was decided to write off the balance.	Steps should be taken to keep records and documents relating to balances due from debtors.
III.	Due amount from a foreign company for the tests done for the treatment of Covid 19, It was observed in the audit that the age over 365 days amount of Rs. 12,780,950 could not be recovered due to the hospital being out of control. The debtor balances of older than one year and legal action has been taken to collect the amount Rs. 3,581,382 only.	Legal action taken against China Harbour Engineering Ltd during 2024 for the total unsettled amount of Rs 12.7m. As of December 2023, legal action was considered from the following Co's for payment default totaling to Rs 3.5m.	Necessary action should be taken to recover hospital bills due amount.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.346,020,064 and the corresponding profit in the preceding year amounted to Rs.609,460,389. Therefore deterioration amounting to Rs.263,440,325 of the financial result was observed. The main reasons for the deterioration are the cost of Services had increased by Rs. 117,402,192 and decreed of revenue Rs. 18,735,295.

2.2 Trend Analysis of income

Audit Issue	Management Comment	Recommendation
For the year under review, Lanka Hospital Diagnostic Ltd's operating profit decreased by 43% at Rs.263,440,325 , but profit after tax decreased only 2.73 percent of Rs.15,956,956 due to increase in fixed deposit interest income by Rs.484,116,545 which is not part of operating income.	The drop in PAT is mainly due to diminished GP margin since the core business margin is relatively lower than that of Covid business.	Steps need to be taken to avoid the decrease of operational profit.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Along with the main laboratory, Lanka Hospital Diagnostic Company maintains 6 Mini Labs throughout the island. Of the laboratory test equipment available in the above laboratories, there were a total of 03 laboratory equipment owned by the hospital. All other laboratory equipment acquired on regent base on a rent agreement for a period of 5 years. A benefit evaluation calculated on the basis of the discount factor was not done to determine whether the use of laboratory equipment on the regent base method would be more beneficial to the hospital.	It is our standard process to perform a financial evaluation before the procurement process is initiated through PC committed. We have attached an evaluation done in year 2023 as an example.	Steps should be taken to conduct a cost –benefit analysis for purchasing of laboratory equipment.
(b) There are 38 sample collection centers COCOs belonging to the hospital existed on 31 December 2023 year ended that total income was Rs 562 Million. Although there were 983 registered centers belonging to the third parties and the number of active centers was 445. It was observed that many third party sample collection centers occasionally send samples for laboratory testing. However, in the third party 538 centers was non-active. It was observed that the total generated outside sales income Rs 1950 million of the year under reviewed decreased by Rs.26 Million as compared to the previous year.	Outside sales drop was mainly due to decrease in Covid sales generated through COCOs and Mini Labs.	Steps need to be taken to prevent the sales drop.
(c) When considering the actual income Rs.561, 614,488 and the estimated income Rs.641, 077,714 of 82 COCOs for the year 2023, it was found that out of 12 months 11 months had not achieved their targets. Accordingly, it was observed that the actual income had decreased by Rs.79, 463,226 or 12.4 per cent compared to the estimated income.	Total net revenue generated from 60 COCOs in the year 2023 was Rs. 519Mn and the budgeted revenue for the same period was Rs. 528Mn. Accordingly, the YoY drop was 2% mainly due to diminished Covid sales from COCOs.	Attainable targets need to be set.