

Lanka Hospitals Corporation PLC - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of The Lanka Hospitals Corporation PLC (“Company”) and the consolidated financial statements of the company and its subsidiaries (“Group”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, statement of profit and 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2023, and of their financial performance and their 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 Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Company Financial Statements and the Consolidated Financial Statements of the current year. These matters were addressed in the context of my audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and I do not provide a separate opinion on these matters.

• Revenue recognition

Refer to Note 4.15 – accounting policy and Note 5 to the Financial Statements. The Revenue of the Group for the year ended 31st December 2023 was Rs.10,698 Million.

Risk Description

The Group’s revenue generated from its healthcare services is disclosed in Note 5 together with the related accounting policy in 4.15. I considered revenue as a focus area due to the complexity of the pricing structure, its high volume,

Our Response

My audit procedures included the following, among others;

- I carried out audit procedures over revenue measurement by testing on a sample basis, transactional level pricing and applicable

determination of appropriateness of gross or net basis of revenue recognition in certain arrangements, and reliance on IT controls.

- documentary evidence.
- I discussed with management regarding the contractual arrangements where consultant medical personnel are involved, and tested on a sample basis the appropriateness of the recognition of revenue on a gross or net basis.
- I obtained an understanding about the key IT and manual controls over the occurrence of revenue and tested the same on a sample basis.
- I performed specific audit procedures over cash collection related to revenue covering a sample of locations where the Group's business is carried out.
- I assessed the adequacy of the disclosures made in Note 5 in the financial statement.

- **Carrying value of inventories**

Refer to Note 4.8– accounting policy and Note 16 to the Financial Statements. The Group carried inventories of Rs.980 Million as at December 31, 2023, at the lower of cost or net realizable value.

Risk Description

Valuation of inventory involves judgement and estimates due to the nature of products and stringent quality requirements. Due to allocation and sale of inventories within Group operations based on the business model, both existence and valuation of inventories are key areas of focus.

Our Response

My audit procedures included; assessing adequacy and consistency of provisioning for inventories at the reporting date with the Group's inventory provision policy.

- On a sample basis, comparing the carrying amounts of the Group's inventories with net realization value of those inventories.
- Testing the existence of inventories through physical verification as at year end and validating the cost allocation within Group entities.

- **Recoverability of Trade Receivables**

Refer to Note 4.9.1 – accounting policy and Note 17 to the Financial Statements. The Group's trade receivable as at 31 December 2023 was Rs.475 Million.

Risk Description

Assessment of recoverability of the Group's trade receivables involves based on management judgement. The historical payment patterns and other information relating to the creditworthiness of customers. Inherent subjectivity is involved in making judgements in relation

Our Response

My audit procedures included –

- Testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history and financial information pertaining to the customers.
- Testing the receipt of cash after the year end relating

to credit risk exposures to determine the recoverability of trade receivables.

to 31 December 2023 balances; and

- Testing the adequacy of the Group's impairment provisions against trade receivables by assessing the judgements made and the historical trading experience with the relevant customers.
- Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the impairment provision.

1.4 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 Group'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 Group 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 Group 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 Group.

1.5 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 Group'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 Group'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 Group 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.

1.6 Un-reconciled Control Accounts or Records

Audit Issue					Management Comment	Recommendation
Item		Value as per Financial statement	Value as per Corresponding Records	Difference		
		Rs. Million	Rs. Million	Rs. Million		
(a)	Fixed Assets (Total of 8 items)	5,625.26	4,669.98	955.28	The differences are historical and rooted to partial lack of documentation that were recognized prior to 2012 where the transitioning new management occurred 2008 onwards. This issue was documented in consultation with auditors	Action should be taken to identify the difference.

1.7 Inappropriate valuation

Audit Issue	Management Comment	Recommendation
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Inventories – Medical Items.

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| <p>a. According to the financial statements as of December 2023, the stock value of drugs amounting to Rs.531,429,923 and Rs.48 Million were disclosed under note number 16. pharmaceutical items received as a trade discount through the stocks which are provided by the suppliers as trade discount in purchasing drugs, has been taken in zero value in the above stock value. Although the GRN value of these drugs was zero, the maximum price (MRP) of the drugs had been stated in the financial statements. Hence stock value of pharmaceutical items was understated by 48 million.</p> | <p>Stock value of free goods and drugs are disclosed under note number 16. However as per Sri Lanka financial reporting standards inventory need to be valued at cost or net realizable value whichever is lower. If those free items are taken in stock, then cost price of the stock value will be overstated. It will result error in recording inventory as required by SLFRS.</p> | <p>The fair value of the stock should be disclosed in the financial statements.</p> |
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- b. Although the value of expired drugs in the year 2023 was Rs. 6,600,998 and end of the year closing stock of expired stock adjusted value was Rs. 2,340,866. During the year total amount of expired drugs value had not been adjusted in the cost of sale. The hospital had not followed Standard Operating Procedure of Lanka Hospital Inventory Policy (SOP-FIN-14) chapter 7.2.6 and 7.6.2.
- The said expired drugs of Rs. 6,600,998 were already quarantine in HIS. Therefore it is not include in year-end stock. And we provide impairment for the year was Rs. 3,386,110 for the items in 31st December 2023 which include in the year end stock report.
- The value of the quarantine stock should be disclosed in the financial statement.

1.8 Documentary Evidences not made available for Audit.

Item available	Amount Rs.	Evidence not	Management Comment	Recommendation
Aggregated balances as Five Trade Creditors, Thirteen Sundry Creditors, Advance given to the Company Foreign Supplier, Three Project Creditors, Stale Cheque Consultant Payable and Supplier Payable	37,708,695	The detail information has not submitted to reason for write off and write back, document of Age analysis and reason for the non-Payment and non-enchase cheque numbers.	This has been taken as per the management decision to write off and write back based on long outstanding balances prevailing in the ledger as per the review done by Auditor (M/S KPMG) with due approval of the audit committee and Board of directors.	Reasons affecting to change in ledger account balances should identified before write and write back.

1.9 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) Trade debtors balance as at 31 December 2023 was Rs.380,309,584 and deduction of impairment loss was Rs. 54,455,825. Since the debt period of the hospital is 30 days, the value of the debts exceeding 60 days amounted to Rs.109, 611,865.	Impairment provision recognizes when there are any indicators to the carrying amount of the debtor balance using the expected credit loss (ECL) method.	Action should be taken to recover hospital chargers with in the debt period
(b) Trade and Other Receivables balance as at 31 December 2023 was Rs. 826,720,121 and deduction for impairment on Trade Debtors as at 31 December 2023 was Rs. 3,120,490. The impairment balance included unsettled hospital charges of the patients who had left the hospital without settling charges on various reasons after	Impairment provision recognizes when there are any indicators to the carrying amount of the debtor balance using the expected credit loss (ECL) method & however that doesn't reflect that the debtor is fully unrecoverable/impaired.	Need to take legal action to expedit recovery of arries income

receiving treatments from the hospital. The hospital had taken legal action to recover the hospital charges amount of Rs.28,313,937

The following observations were made.

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| (i) | The value of the hospital charges to be recovered by the hospital, due to the default in payment of the relevant charges on specified days upon placing surety (Letter of indemnity) by a family member to pay the hospital fees 07 deceased patients, amounted to Rs.10,730,427. | As per the records, there are 9 unsettled claims of deceased patients as of 31st December 2023, amounting to Rs 10,730,427/- where the remains had been released on letters of indemnity. | Necessary action should be taken to recover hospital bill. |
| (ii) | The value of the hospital charges to be recovered from 10 patients upon placing surety (Letter of indemnity) by a family member to pay, on a specific date, the hospital fees that could not be settled due to the lack of adequate money, amounted to Rs.11,868,179. | As per the records, there are 10 unsettled claims of patients as of 31st December 2023, amounting to Rs 11,869,179/-where they had been released on letters of indemnity. | Do |
| (iii) | Two Covid patients were admitted to the hospital and treated as requested by the shipping company but the patient did not pay the hospital bill of amounted to Rs.1, 427,737. | For both bills necessary legal actions have been taken to recover the dues. | Do |
| (iv) | The court had given a decision to seize the property of a patient (Who died in 31 January 2019) and collect the due amount of Rs. 1,466,259 although 05 years have completed the hospital charges have not been collected yet. | At the process of settling auction papers and pending reports from Welisara Court Registrar. | Do |
| (v) | It was observed that due to the long time period taken by the hospital to collect the hospital fees dues, in many cases, the relevant parties of the patient avoid paying the bill. The hospital bills had been write of amount is as Rs. 3,464,746. | All follow up procedures have been taken for these debtors balances however we were unable to collect

All attempts had failed to track the supporting from both ends. As such, upon presenting the case to the Board, it was approved to write off the balances. | Necessary action should be taken for immediate recover of hospital bills. |

1.10 Bank management

Audit Issue	Management Comment	Recommendation
a) Stale cheque accounts –(Other Payable) The hospital has not introduced a system similar to Government’s Financial Regulations FR396 in making payments by cheques to all the payees are required to collect their cheques. Cheques issued to payees but not presented to banks and need to be informed. The amount was transferred to the Stale Cheque Account due to payees not collecting their cheques within a period of six months in making payments by cheques was Rs.77,737,866.	Those accompanying balances included cheques collected but not presented to the bank. As an accounting policy we transfer all expired cheques to the stale cheque account. However, we have issued new cheques or revalidate those stale cheques based on the request made by the particular supplier.	Necessary action should be taken to introduce equal to Government’s Financial Regulations.

1.11 IT System

Audit Issue	Management Comment	Recommendation
a) Advance money received to the hospital by the caregivers for medical treatment for their relatives in the future. The Hospital Information billing system had deposited this amount for many years to the “unblocked deposits” accounts. (deposit not allocated for specific patient) The balance was amounted to Rs. 40 million.	We have charged certain deposits as other income on timely manner considering the substance & the time of the deposit.	Formal methods should be introduced to deposit such receivables and arrangements should be made to keep such accounts as payables in the ledger.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.1.203, billion and the corresponding profit in the preceding year amounted to Rs.1.209 billion. Therefore on deterioration amounting to Rs.6.906 million of the financial result was observed. The reason of the deterioration is increased of administrative expenses by Rs.436 million.

2.3 Key Performance Indicators

The Company Key Performance Indicators and its achievement are as follows.

Key Performance Indicators	Budget	Actual	Actual/ Budget *Percentage
Number of Consultations	372,000	333,165	90%
Number of Inpatients	29,422	26,219	89%
OP/IP Conversion Ratio	7.9%	7.9%	100%
Average Revenue Per Inpatient	266,329	305,725	115%
Average Revenue Per Outpatient	4,657	5,275	113%
Room Occupancy%	77%	74%	97%
Average length of Stay (Days- Total beds)	2.22	2.19	99%
GOT Utilization	53%	53%	100%
CTOT Utilization	32%	28%	88%
Employee per occupied bed	8	8.	100%
Nurses per occupied bed	2	2.	117%

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Due to weaknesses in the system and controls Process of granting discount and refunds introduced by the Finance Department, Internal audit reports had revealed that a fraud of Rs.3, 185,718 had been committed by two officers in the Billing Department of the hospital.	The fraud was identified by the finance department and informed to the GCEO & the internal audit department. Internal audit department has gone through the process and informed this to the internal inquiry panel. Accordingly, the employees were suspended and necessary legal actions were taken to recover the cash. Partly money has been recovered and legal proceedings are in the process. Further additional control procedures have introduced to avoid repetition of such instances.	Adherence control methods should also be introduced and a control system should be tested regularly as walk through test.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
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a. The procurement of medical equipment (CTG) Fetal Doppler machine.

Purchase of CTG machine at a cost of Rs 1, 540, 000 on 08/09/2023.

The hospital has planned to purchase CTG Machine direct contract method since the user has requested the Philips FM 20 Model CTG machine for the pediatric unit. The brand was mainly requested by the end user due to its user friendly. However, the supplier was not in a position to supply due to the currency fluctuation and difficulties to transfer funds to their principles.

Following observations were made.

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| <p>i There was no documentary information that the bid documents were handed over to the Technical Evaluation Committee appointed on 28 May 2022 following the opening of bids. According to the Technical Evaluation Committee report 08th June 2022 and the Procurement Committee report dated 19 July 2022, it was mentioned that the prepared specifications were in compliance with the end-user requirement and the recommendation for making purchase from the brand. Therefore the user has been satisfied with the Eden f6 model CTG machine after making the demonstration to end user. Furthermore, since there are similar products available in the market under different brand names that can perform the same task as the items of equipment in question, the audit could not confirm whether an economic and productive procurement process had been carried out. Accordingly, the audit could not confirm the fact that the procurement activities were carried out with transparency</p> | <p>Relevant Memorandum address to BEC is attached with the file. Initial request for FM 20 model and it was supposed to proceed considering the justification given by the User (HOD-Neonatology & Paediatrics) and accordingly BEC also confirmed the same.</p> | <p>Procurement activities should be done transparently.</p> |
| <p>ii Contrary to the Paragraph 5.7.4 of the Procurement Manual of the Hospital, the bid document did not include the facts on the operational cost and life cycle cost, and the other cost applicable in the bid evaluation that were taken into account.</p> | <p>LH is preparing details financial evaluation considering the all related cost for machines which are under BOD approval</p> | <p>Hospital Procurement guide lines should be followed.</p> |

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| iii | According to 6.5 of the Lanka Hospital Procurement Manual Declaration of Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file. | But, currently it is streamlined for BEC & PC. Staff declarations are available with the HR department | Hospital Procurement guide lines should be followed. |
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b. Procurement of Stainless Steel Rack

Following observations were made.

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| i | According to chapter 3.16 of Lanka Hospital Procurement Manual, the maximum advance amount is 50 % of contract some although 80% of Rupees 6, 692,000 had been given to the supplier without advance bond for procurement of 25 Stainless Steel Racks on 20th December 2022 of Rs. 8,365,000. | Paid 50% in advance and 30% release after. | Hospital Procurement guidelines should be followed. |
| ii | As per 3.16 of Lanka Hospital Procurement Manual, GCEO was required to give approval for advance payment of 50 % but GCEO's approval was not obtained for advance payment of this procurement | Approved by the PC, chaired by GCEO | -do- |
| iii | According to 6.5 of the Lanka Hospital Procurement Manual Declaration by Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file. | But, now it is streamlined | Hospital Procurement Guide line Should be followed. |

c. Procurement of 10 KVS UPS Total cost of Rs. 2,205,000

Following observations were made.

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| <p>i The evaluation should be carried out according to the requirement disclosed in the Procurement Document. All relevant documents should be attached to the evaluation report but technical specification comparison schedule were not attached. The bid was awarded to 2nd lowest bidder and bidder had submitted printed brochure include specification request. The specification have forty seven components and identified twenty eight only. Other components were unidentified and It was contrary to the paragraph 5.7.1 of the Procurement Manual of the hospital.</p> | <p>Not given</p> | <p>Hospital Procurement Guide Line should be followed.</p> |
| <p>ii According to 6.5 of the Lanka Hospital Procurement Manual Declaration of Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file.</p> | <p>But, currently it is streamlined for BEC & PC.
Staff declarations are available with the HR department</p> | <p>Hospital Procurement Guide Line should be followed.</p> |

d. Procurement of Surgical Head Lamp (Battery Operated)

Preferred brand and model given by consultant and quotation was called from Local Agent. Evaluation Committee members recommended the bid submitted by Local Agent. Therefore bidder had responded the hospital request. Procurement Committee had approved to procure direct contract at the value of Rs. 1,575,000.

Following observations were made.

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| <p>i According to the Paragraph 2.5 of the Procurement Manual of the Lanka Hospitals Corporation, used single source method for this Procurement used only under exceptional circumstances where procurement for single source is more advantages than the competitive bidding method and also proper justification of the end- user or subject specialist. Furthermore, the end user had not provided justification that the hospital would not gain financial benefits from the competitive bidding method. Accordingly, the audit could not confirm that the procurement activities were carried out with transparency.</p> | <p>This was due to urgent requirement raised by the Cardiac Operation Theater for the use of LH residence Cardiac Surgeon. In order to fulfill the surgeon's requirement specified model was procured.</p> | <p>Hospital Procurement Manuel should be followed.</p> |
| <p>ii According to 6.5 of the Lanka Hospital Procurement Manual Declaration of Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file.</p> | <p>Currently it is streamlined for BEC & PC. Staff declarations are available with the HR department</p> | <p>Hospital Procurement Guide Line should be followed.</p> |
| <p>iii Contrary to the Paragraph 5.7.4 of the Procurement Manual of the Hospital, the bid document did not include the facts on the operational cost and life cycle cost, and the other cost applicable in the bid evaluation had not been taken into account.</p> | <p>LH is preparing details financial evaluation considering the all related cost for machines which are under BOD approval.</p> | <p>Hospital Procurement Guide Line should be followed.</p> |

e. **Procurement of Five Patient Warmer total amount Rs.2,925,000.**

Following observations were made.

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| i | According to 6.5 of the Lanka Hospital Procurement Manual Declaration of Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file. | But, currently it is streamlined for BEC & PC. Staff declarations are available with the HR department. | Hospital Procurement Guide Line should be followed. |
| ii | According to the 3.2 of the Lanka Hospital Procurement Manual, content of Procurement documents need to be included to the file it was observed during the audit that there were no tender calling bid documents on file to verify that the bid were in accordance with the essential contents of procurement documents for selection of substantively responded bidder. | Invitation for bid document is available with the file | Hospital Procurement Guide Line should be followed. |
| iii | According to the 3.13 of the Lanka Hospital Procurement Manual, bid evaluation criteria should be decided considering the factors that are effective for the selection of the most responsive bid but, bid evaluation criteria had not been included in the relevant procurement file. | Available with the document prepared for technical specification | Hospital Procurement Guide Line should be followed. |
| iv | According to the 3.18 of the Lanka Hospital Procurement Manual, Contractors shall be agreed to submit a performance security to ensure their performance of the contracts as per the terms and conditions of the contract at the time of entering in the agreement but, performance guarantee had not been obtained from the supplier. | As per the Manual, Performance Guarantees shall be obtained for orders which are over 05Mn thresholds (Manual Ref. 4.19) | Hospital Performance bond need to be obtained. |
| v | Contrary to the Paragraph 5.7.4 of the Procurement Manual of the Hospital, the bid document did not include the facts on the operational cost and life cycle cost, and the other cost applicable in the bid evaluation had not been taken into account. | LH is preparing details financial evaluation considering the all related cost for machines which are under BOD approval. | Hospital Procurement Guide Line should be followed. |

f. Procurement of Patient Monitors (13 Units)
Total amount of Rs 5, 187,000.

Quotation was called from registered suppliers.

Following observations were made.

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| i | Contrary to 4.5 and 4.7 of the Procurement Manual of Lanka hospital, the bid opening committee is responsible to ensure that the complete bid opening minutes and bid documents opening are to be submitted for the evaluation immediately finalized evaluation with the period. There was no such documentary information attached to the relevant file. | Bid opening minutes are available with the file | Hospital Procurement Guide Line should be followed. |
| ii | As per 3.20 of Lanka Hospital Procurement Manual, the contract value exceeds Rs. 5 million PE shall be signed a contract agreement between the PE and the Supplier. But no any agreement had been signed with the supplier for this contract. | This particular order has not exceeded Rs. 5Mn. Rupee as per the Procurement Manual | Hospital Procurement Guide Line should be followed. |
| iii | According to the 3.18 of the Lanka Hospital Procurement Manual, Contractors shall be agreed to submit a performance security to ensure their performance of the contracts as per the terms and conditions of the contract at the time of entering in the agreement but, performance guarantee had not been obtained from the supplier. | This particular order has not exceeded Rs. 5Mn. Rupee as per the Procurement Manual | Hospital Procurement Guide Line should be followed. |
| iv | According to 6.5 of the Lanka Hospital Procurement Manual Declaration of Members of Procurement Committee (PC) and Bid Evaluation Committee (BEC) shall be included in the appointment letter for other members involve in the procurement activities in additions to the members of PCs and BECs. Whereas that Declarations was not available in the relevant file. | But, now it is streamlined | Hospital Procurement Guide Line should be followed. |
| v | Contrary to the Paragraph 5.7.4 of the Procurement Manual of the Hospital, the bid document did not include the facts on the operational cost and life cycle cost, and the other cost applicable in the bid evaluation had not been taken into account | LH is preparing details financial evaluation considering the all related cost for machines which are under BOD approval. | Hospital Procurement Guide Line should be followed. |

g. Telescope OES Elite 4mm 12 Degree HD Antoclavable WA2T4124 Equipment purchased under PO NO 2302469 on 08 November 2023 purchase of Rs. 2,445,441

Following observations were made.

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| i | According to the Paragraph 2.5 of the Procurement Manuel of the Lanka Hospitals Corporation, clarifications had not been made for the single supplier source. This method used only under exceptional circumstances where procurement for single source is more advantages than the followed the competitive method and also proper justification of the user or subject specialist. Furthermore, the end user had not provided justification that the hospital would not gain financial benefits from the competitive bidding method. | The particular Telescope is for the Olympus Laparoscopy System, and both should be compatible with each other. | Hospital Procurement Guide Line should be followed. |
| ii | It was observed that reasons were not provided any advantage of the specific reasons of the end user to demand these items of equipment under these brand names. Paragraph 3.2 of the procurement manual specification had not been prepared. | Considering the availability and due to an emergency requirement, a telescope was brought down from Karl Storz brand which is using with the laparoscopy system as a demonstration purposes But some surgeons not willing to use it due to non-comply of their actual requirement with the laparoscopy system. | Do |

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
A shortage of 316 numbers of actual staff was observed with compared to the approved carder at the 31 December 2023. The vacancy comprise with 123 Nurses.	Shortages have occurred mainly in the nursing and medical areas due to lack of availability of trained and skilled candidates.	Approved carder should be reviewed periodically and appointments need to be fulfilled.