

Private Health Services Regulatory Council – 2011

The audit of financial statements of the Private Health Services Regulatory Council for the year ended 31 December 2011, comprising the statement of financial position as at 31 December 2011 and the statement of Financial performance, statement of changes in equity, and cash flow statement 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 Section No.13(1) of the Finance Act, No.38 of 1971 and the section No.7(1) of the Private Medical Institutions (Registration) Act, No. 21 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance and cash flow statement.

2. Financial Statements

2.1 Disqualified of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard No.01

- (i) In terms of paragraph 38, when preparing financial statements an assessment of the entity's ability to continue as a going concern had not been made and in terms of paragraph 132 (c), the accounting policies used that are relevant to an understanding of the financial statements had not been disclosed.
- (ii) In terms of paragraph 108, even though the entity should present, either on the face of the statement of financial performance or in the notes, a sub – classification of total revenue classified in a manner appropriate to the entity's operations but such a classification had not been forwarded for the income of Rs.11,988,000 received as registration fees in the year under review.

(b) Sri Lanka Public Sector Accounting Standard No.07

Even though useful life time of an assets should be determined considering the factors mentioned in the paragraph 70 of the standard, but without considering the said factors all non-current assets including furniture fixtures, office equipments and computers had annually been depreciated at 5 per cent.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A methodology had not been identified and implemented for accounting of direct deposits of registration fees income received to the bank. As such, as per the bank reconciliation statement prepared as at 31 December 2011 disclosed that direct deposit in the bank a sum of Rs.17,039,250 received during year 2008 to 31 December 2011 had not been identified as income as at 31 December 2011. Further, based on the receipts forwarded by the customers as a proof of direct deposits money in the bank a sum of Rs.13,957,895 had been identified as income but as per the bank reconciliation statement as on 31 December 2011 that money had not been received to the bank. As such, relevancy, accuracy, completeness, and reliability of Rs.11,988,000, identified as registration income in the year under review, could not be verified.
- (b) A sum of Rs.570,055 interest income for matured Treasury Bills directly received to bank in the year under review had not been accounted.

(c) A sum of Rs.4,500,000 in three instances had been transferred from the current account of the Regulatory Council to the saving account of the Regulatory Council but the credit entry of that transaction had not been posted in the cash book and equal amount had been shown as a current liability in the statement of financial position.

(d) Bank charges of Rs.6,100 and debit tax of Rs.34,752 charged by the bank for the period from the year 2007 to 31 December 2011 had not been taken to accounts.

2.2.3 Unexplained Differences

Detail had not been furnished to the audit for the amount of Rs.615,000 adjusted to the bank reconciliation statement prepared for the year ended 31 December 2011, which shown less in the bank than the cash book. Further, a difference of Rs.172,500 had in between the cash book balance and the cash book balance shown in the bank reconciliation statement. Also cash book had been balanced with less amount of Rs.130,000.

2.2.4 Lack of Evidence for Audit

Treasury bills certificates for sum of Rs.10,000,000 as on 31 December 2011 had not been furnished and a register had not been maintained including Treasury Bill numbers, date of deposit, date of mature and value of that bills.

2.3 Accounts Receivables

Value of 03 cheques deposited in the year 2008 amounted to Rs.272,500 had dishonoured, but action had not been taken to recover the same from the relevant parties.

2.4 Non-compliance with Laws, Rules Regulations and Management Decisions

The following Non-compliances with Laws, Rules Regulations were observed.

Reference to Laws, Rules and Regulations and Management Decisions etc.	Non-compliance
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(a) Section 11 of the Financial Act, No.38 of 1971

A sum of Rs.6,928,573 had been invested by the council as on 31 December 2011 in fixed deposits without taking approval of the appropriate Minister and the Finance Minister.

(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka .

The officer who is empowered to make payment by cheque and the signatories of cheque should satisfied that the name and other particulars appearing on the cheque agreed with those shown on the face of the voucher before make payment and sign the cheque. Also, all cheques

(i) Finance Regulations 139(6), 141(3)c and 384 (2)

should be crossed for the shake of security of the cheque. So such, two cash cheques valued for Rs.1,310,000 had been issued during the year under review.

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| (ii) Finance Regulation 386
(4) | The validity of all cheques issued should be restricted to thirty days from the date of issue. Cheques had been issued without restricting validity period during the year under review. |
| (iii) Finance Regulation 388 | A register for cheques despatched had not been maintained. |
| (iv) Finance Regulation 395 | Eventhough a bank reconciliation statement should be prepared as at the end of each month, before 15 th of the following month, but the council had not prepared monthly bank reconciliation statement for the year under review and a bank reconciliation statement had been prepared and forwarded for the whole year ended 31 December 2011. |
| (v) Finance Regulation 396(d) | Action had been taken as per Finance Regulations for 02 cheques uncashed more than six months valued for Rs.21,500. |
| (c) Treasury Circular No. 842 dated
19 December 1978 | A fixed assets register had not been maintained for non current assets costed for Rs.1,096,541 remained at the end of the year under review. |
| (d) Treasury Circular No.
IAI/2002/02 dated 28
November 2002. | A fixed assets register had not been maintained for computers and softwares costed for Rs.2,034,970 remained at the end of year under review. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review amounted to a surplus of Rs. 1,304,722 as compared with the corresponding surplus of Rs. 970,888 for the preceding year, thus indicating a improvement of Rs.333,834 in the financial result of the year under review as compared with the preceding year. Despite of increase in the Administration expenditure of the Fund by Rs.1,932,205 and Provincial Council contribution by Rs.1,888,000, the increase in the registration charges income by Rs.4,041,000 had been the main reasons for this improvement.

An analysis of the financial results of the year under review and the 04 preceding years revealed that the surplus of the Fund in the year 2007 amounted to Rs.11,016,413 had been fluctuated and had Rs.1,304,722 at the year 2011. In re- adjusting the employee emoluments and depreciations for non-current assets to the financial result the contribution of the years 2007, 2008, 2009, 2010 and 2011 had a sum of Rs.11,168,903, Rs.6,711,807, Rs.2,871,214, Rs.2,530,453 and Rs.2,721,073 respectively. The contribution compared from year 2007 to the preceding year had deteriorated by 40 per cent, 57 per cent and by 12 per cent and had improved by 7 per cent compared to the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

In terms of section 5 of the Public Enterprises circular No.PED/12 of 02 June 2003, eventhough a corporate plan for not less than three years had to be prepared to accomplish the institute vision and mission, the council had not prepared a corporate plan. Further, an action plan had not been prepared for the year under review.

4.1.2 Activity and Review

The following observations are made.

- (a) An idea in the performance of the council could not be expressed as the council had not prepared performance reports for the year under review.
- (b) In terms of sub section 2 (1) of the Private Medical Institution (registration) Act No. 21 of 2006, all Private Medical Institution should be registered. While 1,747 Private Medical Institution had been registered at the establishment of the council in 2007 but only 486 institutions had been registered at the end of the year under review and registration had declined by 72 per cent. An investigation had not been conducted to find out the reasons for the decrease of registrations, Whether due to the close up the Medical Institution or may carrying out the business without being registered. Further, a proper methodology had not been prepared and implemented for the identification of the number of Private Medical Institutions have to be registered, make registrations, and to execute the regulations in the section 04 of the Act, for unregistered institutions.
- (c) The council had unable to prepare and implement a proper methodology to achieve the following objectives in terms of section 9 of the Private Medical Institution (Registration) Act No.21 of 2006 at the end of the year under review.
 - (i) The development and monitoring of standards to be maintained by the registered Private Medical Institution.
 - (ii) To ensure that minimum qualifications for the recruitments of staff are followed and minimum standards are adopted of training of personnel by all Private Medical Institutions.

(iii) To ensure the quality of patient care services rendered or provided by such Private Medical Institutions.

(d) In terms of section 13 (1) of the Act, even though the Minister may on the advice of the council by order published in the gazette, formulate and enforce schemes of accreditation for Private Medical Institutions, action had not been taken even at the end of the year under review in this regards.

4.2 Staff Administration

Action had not been taken to get cadre approval and recruit suitable staff by identify the Council functions and the scope since the establishment of the Council to the end of the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of section 7(1) of Private Medical Institutions (Registration) Act, No.21 of 2006, It had been mentioned that the Private Health Services Regulatory Council should be a corporate body. Accordingly, the Finance Act No.38 of 1971 is applicable for the Council and, even though in accordance with the section 13(1) of the Act, the annual account should be rendered to the Auditor General within 04 months after closure of the financial year, but the Regulatory Council had rendered the financial statements for the year under review to the audit with six years delay on 10 May 2018.

5.2 Internal Audit

An internal Audit had not been carried out on the transactions of the Regulatory Council during the year under review.

5.3 Procurement and Contract Process

The following observations are made.

- (a) A procurement plan had not prepared for the year under review.
- (b) A new name board for displaying had been given by the Regulatory Council to all Private Medical Institutions who make new registrations. A sum of Rs.2,087,000 had spent to procure 700 name boards during the year under review. According to the below mentioned facts, observed that this procurement had not been met the transparency and not economical.
 - (i) In terms of paragraph 2.4.1 of the Government Procurement Guidelines, even though entire procurements process should be carried out by the Procurement Committee and the Technical Evaluation Committee, the Regulatory Council had not appointed the Procurement Committee and the Technical Evaluation Committee for this procurement. Instead of that, this procurement had done based on the decisions taken in the Management Committee meeting and monthly meetings of the Regulatory Council.

- (ii) In terms of paragraph 5.1.1 of the Government Procurement Guidelines, written documents had not been furnished to audit to verify that the Regulatory Council had prepared the bidding documents including technical specifications, drawings etc.
- (iii) Eventhough three suppliers had submitted bids, written evidences had not been furnished to the audit to verify that, how many suppliers had been sent the bid invitations, how did send the bid invitations, how did receive the bids etc. Out of three suppliers, one supplier had sent bidding documents without address or telephone number in the bidding documents.
- (iv) In terms of paragraph 6.3.6 of the Government Procurement Guidelines, the bid opening activities should be reported in the stipulated format and should be signed by the members of the bid opening committee, such a methodology had not been followed.
- (v) Out of three bids received for large, medium and small name boards, 500 small name boards at Rs.2,620 each, 100 medium name boards at Rs.3,620 each, and 100 large name boards at Rs.4,150 had been procured from the bidder who had submitted lowest prize and incurred Rs.2,087,000 totally for 700 name boards. But the fairness of the cost of the procurement could not be justified as explicit specifications had not be prepared for the name boards.

5.4 Budgetary Control

The budget had not been prepared in accordance with section 5.2.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Council from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

(a) Staff Administration

Action had not been taken to get cadre approval and recruit suitable staff by identify the council functions and scope since the establishment of the Council till the end of the year under review.

(b) Financial Control
Accounting

Delays in preparing bank reconciliations. Not accuracy in delayed reconciliations, and weakness of maintaining cash book.