

Private Health Services Regulatory Council – 2018

Qualified Opinion

The audit of the financial statements of the Private Health Services Regulatory Council (“Council”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the Financial Performance Statement, 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Regulatory Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in the paragraphs 1.5 of this report. 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 qualified 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 Public Sector 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 Council’s ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Regulatory Council or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Regulatory Council 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 Council.

1.4 Auditor's Responsibility for the Audit of 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 scepticism 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 Regulatory Council'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 Regulatory Council'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 Regulatory Council 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

Regulatory Council and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Regulatory Council has complied with applicable written law, or other general or special directions issued by the governing body of the Regulatory Council;
- Whether the Regulatory Council has performed according to its powers, functions and duties; and
- Whether the resources of the Regulatory Council 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 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standard

Non - compliance with reference to the Standard -----	Comments of the Management -----	Recommendation -----
(a) Sri Lanka Public Sector Accounting Standard 1 -----	Will be corrected in future.	Actions should be taken to disclose measurements used in preparing financial statements, if there were any, and other accounting policies used relating to understand the financial statements.

(ii) As per the paragraph 108 of the Standard, a sub classification of the total revenue which was clarified as appropriate to the operations of the relevant entity should be presented in the face of the financial performance statement or notes in it. However revenue of Rs.26,095,000 received as registration fees during the year under review had not been clarified and presented.

A detailed report relating to the registration fees for the year under review to be presented, A computer system is being prepared for registration of Medical Institutes and accounting activities and it is expected to complete those activities within few coming months.

A sub classification of the total revenue should be presented in the face of the financial performance statement or notes in it.

(b) As per the paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7, the useful life of non-current assets had not been reviewed annually and all non-current assets including furniture and fittings, office equipment and computer and accessories had been depreciated by 5 per cent annually.

It is expected to search and take actions in this regard in future.

Actions should be taken to review the useful life of non-current assets annually.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Revenue of registration fees of private Medical Institutes had been taken in to accounts on cash basis.	A computer system is being prepared for registration of Medical Institutes and it is expected to complete those issues within few coming months.	Revenue should be recognized on accrued basis and taken in to accounts.
(b) Receivable interest of fixed deposits amounting to Rs.949,785, payable Employees Provident Fund amounting to Rs.44,253, payable Employees	Income relating to the fixed account was banked.	Actions should be taken to recognize the receivable income and payable expenditure on accrued basis and take in to accounts.

Trust Fund amounting to Rs.11,063 as at 31 December 2018 had not been taken into accounts.

- (c) A sum of Rs.309,000 and Rs.53,115 had been added to and deducted from the cash balance respectively in order to balance the bank reconciliation statement as at 31 December 2018. It is expected to search and report regarding the matter. Monthly bank reconciliation statements should be prepared and presented accurately.

1.5.4 Suspense Accounts

Item	Amount	Period suspense	Comments of the Management	Recommendation
	Rs.			
Fund Transfer Account	232,400	3 years	This is an accounting error which was taken place in the year 2015.	Actions should be taken to recognize and settle the balance of the Fund Transfer Account.

1.6 Non-compliance with Laws Rules Regulations etc.

Reference to Laws Rules and Regulations etc.	Non- Compliance	Comments of the Management	Recommendation
(a) Section 11 of the Finance Act No.38 of 1971	A sum of Rs.31,319,012 in fixed deposits and Rs.10,000,000 in Treasury bills had been invested by the Regulatory Council as at 31 December of the year under review without obtaining the approval of the Minister in charge of the Ministry and the Finance Minister.	Approval was obtained from the monthly meeting of the Council for investing in Treasury bills and fixed deposits.	According to the Section 11 of the Finance Act No.38 of 1971, investment should be made after only obtaining the approval of the Minister in charge of the Ministry and the Minister of Finance.

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| (b) Payment of Gratuity Act No. 12 of 1983 | A provision for Gratuity had not been done for the 09 officers and employees of the Regulatory Council | A relevant methodology was not prepared currently in this regard and it is expected to take actions in future. | A provision should be made for the officers and employees of the Regulatory Council according to the Act. |
| (c) Stamp Fees (Special Provision) Act No. 12 of 2006 and extraordinary Gazette Notification No. 1465/19 | Actions had not been taken to recover the stamp fees of Rs.25 for receipts in instances of paying amount more than Rs.25,000. | A relevant methodology was not prepared currently in this regard and it is expected to take actions in future. | Actions should be taken as per the Stamp Fees (Special Provision) Act No. 12 of 2006 and extraordinary Gazette Notification No. 1465/19 |
| (d) Financial Regulations of Democratic Socialist Republic of Sri Lanka | | | |
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| (i) Financial Regulations 137,139 and 262 (2) | When paying a sum of Rs.20,589,946 by 306 vouchers, only the certification of payment had been done and actions had not been taken to approve the payment or place the signature to prove that the payment was made. Further stamp "paid" had not been placed. | It is expected to take correct actions in future. | Actions should be taken as per the provisions of Financial Regulations. |
| (ii) Financial Regulations 225 (4) | When paying a sum of Rs.172,900 by 6 vouchers, officers who were preparing vouchers or making corrections had not placed their short signatures. | It is expected to take correct actions in future. | Actions should be taken as per the Financial Regulations. |

(iii) Financial Regulations 431 (3)	An investment register including stated value, purchase value, proceeds from sale, resulting profit or loss, dividends, the date dividends received etc. had not been maintained.	It is expected to maintain an investment register in future.	An investment register should be maintained as per the financial regulations.
(e) Treasury Circular No.842 dated 19 December 1978.	A fixed assets register had not been maintained in respect of fixed assets at the cost of Rs.1,848,956 as at 31 December 2018.	Actions will be taken to maintain a fixed assets register.	A fixed assets register should be prepared and it should be maintained up to date.
(f) Treasury Circular No. IAI/2002/02 dated 28 November 2002	A fixed assets register had not been maintained in respect of computer and software at the cost of Rs.3,102,640 as at 31 December 2018	A register for computer and software is already being maintained.	As the register already maintained was not updated, it should be maintained up to date

2. Financial Review

2.1 Financial Results

Operations for the year under review had resulted a deficit of Rs.6,167,170 and the corresponding deficit for the previous year was Rs.2,466,375. Accordingly a deterioration of Rs.3,700,795 was observed. Even though the income had increased by Rs.5,252,992 compared with the previous year, increase of administration expenditure by Rs.5,896,888 and increase in employees' salaries on the changes of salary structure by Rs.2,186,772 had mainly affected to the above deterioration.

2.2 Trend Analysis of Main Revenue items

The revenue of registration fees for the year under review was Rs.26,095,000 and the such revenue for the previous year was Rs.21,944,000. Accordingly revenue of registration fees for the year under review had increased by Rs.4,151,000 compared with the previous year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
In a ground of having possibility to assess the necessary staff by obtaining information from the Directors of Provincial Health Services because they are officially members of the Council, there were opportunity to prepare salary scales by obtaining instructions from the Department of Management Services, instead, assessing required staff to the Regulatory Council and preparing salary scales had been handed over to a Consultancy Company and a sum of Rs.320,300 had been paid as charges.	According to a decision of the Council, after identifying the role of the institute, the new recruitment procedure was prepared as to match with them.	Uneconomic expenditure should be avoided.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Cabinet approval had been granted on 09 July 2015 to amend the section 3 (5) of the Private Medical Institutions (Registration) Act No. 21 of 2006, to submit an annual proposal with the Annual Budget Estimate, get including provisions relating to develop private health sectors, and to submit a report relating to expenditure and activities as at the end of the year before issuing 50 per cent of the registration fees collected by the Regulatory Council to Provincial Council. Although 3 years had lapsed after obtaining the approval of the Cabinet,	It is expected to search and take actions in this regard in future.	Immediate actions should be taken to amend the section 3 (5) of the Private Medical Institutions (Registration) Act. No. 21 of 2006 as per the Cabinet approval granted on 09 July 2015.

the Act had not been amended and 50 per cent of the revenue of registration fees had been given to the Provincial Councils.

- (b) Specific period of time for registration had not been mentioned in the Act or in the monitoring instructions. Hence certificates for registration for the year had been issued after receiving money in any day and fines had not been recovered. As a result, the revenue which should be received to the Council at the beginning of the year had been received in delay.
- Registration had delayed due to deficiencies of the process of registration and annual renewal thus actions were already taken for online registration in future. It is expected to propose to the Council a fine for the Medical Institutes which are applying for registration delay.
- Actions should be taken to decide a specific period of time for registration of Private Medical Institutions and to recover a fine from the institutions which are not registered within the said period of time.
- (c) A specific cost method for service of specialists, medical and surgical had got prepared by a private institution incurring a sum of Rs.2,070,000 during the year under review and it had been implemented. However suits had been filed by 3 private hospitals in the month of October 2018 against to the Minister of Health, Nutrition and Indigenous Medicine and some other 08 parties stating that the different qualitative factors of each hospital had not been considered separately and, maximum charges had been prepared in a common basis.
- According to a decision made by the Council, the project was commenced selecting the qualified supplier after evaluating applications received by 5 internationally accepted accounting consultancy institution and hospital charges were gazette after preparing under the supervision of the Minister utilizing the data received from the project . However 9 hospitals had filed suits against to that.
- Actions should be taken to gazette a specific cost method which prepared in a general condition for the services of specialists, medical and surgical of private hospitals after considering the verdict of the suit.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although according to the terms of the Section 2 (1) of the Private Medical Institutions (Registration) Act No. 21 of 2006, all private medical institutions should be registered, only 1,387 private medical institutions had been registered as at 31 December 2018. However a proper methodology had not been prepared and implement for identifying the number of medical institutes which should be registered, to get registered and to implement the provisions of the Section 4 of the Act in connection with the institutions which were not registered.</p>	<p>A statistical survey of private medical institutes is being carried out as covering as the entire Island with the participation and consultation of Provincial Directors of Health services, District Directors of Health services, and Health Medical Officers</p>	<p>A proper methodology should be prepared for identifying medical institution which should be registered in the Council and to implement the terms of the Section 4 of the Act, in connection with institution which is not registered.</p>
<p>(b) According to the terms of the Section 9 of the Private Medical Institutions (Registration) Act No. 21 of 2006, it was failed to prepare and implement a proper methodology in connection with development and supervision of standards which should be maintained by the private medical institutions, evaluation of standards currently maintained, assurance of minimum qualifications in</p>	<p>Guidelines including minimum qualifications and standards for registration of private medical institutions was prepared and sent to the Department of Legal Draftsman and approval for registration is given by the Provincial Director of Health Services of each province or a Board of qualified officers after an evaluation of the standard of private medical institutes, and Qualifications of employees of private medical institutes are supervised, and training courses are conducted by the Council for the said employees.</p>	<p>Although 13 years had lapsed after commencement of the Regulatory Council, it was failed to complete the activities as per the Section 9 of the Private Medical Institutions (Registration) Act No. 21 of 2006. Hence actions should be taken to regularize the guideline paying special attention in this regard.</p>

recruitment of employees
and training of employees
and quality assurance of
care taking services of
patients.

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| <p>(c) According to the terms of the Section 13 (1) of the Private Medical Institutions (Registration) Act No. 21 of 2006, actions had not been taken by the Minister to make a proper proposal for accreditation of private medical institutions and to implement it through a regulation published in the gazette on the instructions of the Council .</p> | <p>Actions will be taken in this regard after having a discussion with the Minister in Charge.</p> | <p>Actions should be taken to make a proposal for accreditation of private medical institutes properly and to implement it.</p> |
| <p>(d) According to the terms of the paragraph (g) of Sub Section 18 (2) of the Private Medical Institutions (Registration) Act No.21 of 2006, actions had not been taken to prepare regulations relating to practices or procedures which should be followed in accepting or finally rejecting a plaint made by a related or unsatisfied party against to a private medical institute or any person related to it</p> | <p>A proper guideline relating to complaints receiving against to private medical institutions was prepared and referred to the legal Section of the Ministry and a complaint Committee also was appointed for examining complaint</p> | <p>Actions should be taken to prepare regulations relating to practices or procedures which should be followed in accepting or finally rejecting a complaint made by a related or unsatisfied party against to a private medical institutions or any person related to it and regularize it.</p> |

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Nine officers had been recruited without obtaining the approval for the required cadre after identifying the functions of the Regulatory Commission and its extent.	Approval of the Council was obtained for the new recruitment procedure which was prepared as to match with the requirement of cadre after identifying the functions of the institute. On the policy decision taken by the council registration not functioned by the Department of Management Services.	Approval of the Department of Management Services should be obtained for cadre which should be prepared as to match with the functions of the Regulatory Council after identifying the functions of the Council.

4. Accountability and Good Governness

4.1 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Due to the fact that the Regulatory Council had not aware with the Circular issued by the Secretary to the Ministry of National policy and Economic Affairs No. NP/SP/SDG/17 dated 14 August 2017 and the 2030 Agenda for Sustainable Development adopted by the United Nations, actions had not been taken to identify activities, sustainable development goals and targets under their purview and achievements for that targets and indicators to measure the achievements.	It was not aware properly in this regard and actions will be taken after searching the matter.	Actions should be taken by the Regulatory Council to identify activities, Sustainable Development Goals and targets under their purview and achievements for that targets and indicators to measure the achievements.