

## Private Health Service Regulatory Council - 2021

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### 1. Financial statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Private Health Service Regulatory Council for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets and cash flow statement and notes to financial statements for the year then ended 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in 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 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### 1.2 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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

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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 determines 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 Regulatory Council'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 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 Sub-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 Responsibilities for the Audit of the Financial Statements

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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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit 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 Audit Observations on the Preparation of Financial Statements

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### 1.5.1 Accounting Deficiencies

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Audit Observation -----	Comment of the Management -----	Recommendation -----
Gratuity allocations of Rs. 1,528,065 having no liability to be settled in the ensuing year, had been shown under current liabilities instead of showing as a non-current liability in the financial statements.	Financial statements will be presented for the year 2022 by correcting the said error.	Provision on employee gratuity should be disclosed under non-current liabilities.

### 1.5.2 Going Concern of the Council

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Audit Observation -----	Comment of the Management -----	Recommendation -----
Considering the negative balance of Rs. 37,762,369 in the net current assets as at 31 December 2021, a short-term bankruptcy was observed in the Council. Furthermore, the Regulatory Council had constantly sustained losses since the	Having fully analyzed the expenditures of the preceding years, all the possible expenses had been written off. It is planned that expenses to be incurred on programs for training nurses at private hospitals would be met by the enrolled nurses themselves or	Action should be taken to increase revenue by registering all the private medical institutions operating in the country whilst minimizing expenses of the Council thereby avoiding the short-term

year 2017. As such, the cumulative fund valued at Rs. 33,719,154 as at 31 December 2016, had gradually decreased to Rs. 14,331,656 by 31 December 2021 representing 57 per cent.

the relevant hospitals. Necessary action is being taken to increase the number of registered medical institutions in order to increase the revenue. As such, it is expected that the Council would become a profit-making entity in due course by minimizing losses.

bankruptcy and minimizing the losses being sustained continuously.

### 1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence Not Made Available	Comment of the Management	Recommendation
Fund Transfer Account	Rs. 232,400.	Schedules.	This error existed in the fund transfer account undetected thus far, was brought to the notice at the monthly meeting, and discussions were held in that regard. This issue will again be taken into consideration at the next monthly meeting, and as per instructions of the meeting, action will be taken to provide the Audit with the said schedules.	Schedules relating to this balance should be made available to the Audit, and the balance should be identified and settled.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Funds Payable

Audit Observation	Comment of the Management	Recommendation
Fifty per cent of the annual registration fee income earned by the Regulatory Council should be remitted to each Provincial Council. However, the Regulatory Council had not remitted 50 per cent of the registration fee income to the Provincial	Fifty per cent of the annual registration fee income had been paid to the relevant Provincial Councils up to the year 2011 in accordance with Sub-section 3(5) of the Private Medical Institutions (Registration) Act, No. 21 of 2006 and Gazette	Provisions of the Act in this connection should be followed.

Chief Secretaries in order to credit to the Provincial Council Fund; instead, those funds had been remitted to the Provincial Directors of Health Service. As such, a sum of Rs. 4,527,835 remitted to the Directors of Health Service during the year under review, had not been credited to the relevant Provincial Council Funds. The sum not remitted in that manner as at 31 December 2021, totaled Rs. 41,880,735.

Extraordinary, No. 1489/18 dated 2007.03.22.

Following an decision reached at the meeting held on 11 February 2011 with members of the Private Health Service Regulatory Council under the patronage of the Minister of Health, the decision that the 50 per cent remittance should be made only when a separate account was maintained by the Provincial Councils, was passed again.

It was also decided that payments would be made only after the approval of the Council on the annual plan presented at the beginning of the year.

#### 1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, Regulations and etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 11 of the Finance Act, No. 38 of 1971, and Public Enterprises Circular, No. PED/12, dated 02 June 2003.	A sum of Rs. 46,934,271 had been invested in fixed deposits as at 31 December 2021 without being approved by the Minister in charge of the Ministry and the Ministry of Finance. Despite being pointed out in this regard in the audit reports during the 13 preceding years, no action had been taken to obtain the approval.	The investment had been made under approval of the Council after having discussed at the monthly meeting of the office management committee. As the Council had been vested with the powers through the Private Medical Institutions (Registration) Act, No. 21 of 2006 to maintain	Section 11 of the Finance Act, and the Public Enterprises Circular should be followed.

accounts separately, a fixed deposit account had been maintained.

- b) Sections 3.8 and 3.14 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. Except for the festival advance and bank loans, a monthly interest of 4.2 per cent should be recovered on all the loans. However, interest had not been recovered up to May 2021 with respect to the employee loans of Rs. 2,446,666 given to 09 employees during the period 2018 - 2020 and the loan of Rs. Rs. 1,881,833 given in the year 2021. Interest had been recovered only from 04 officers in May 2021. Furthermore, an agreement had not been entered into on Form General 272 in granting loans. Interest had not been recovered on employee loans for the period 2018-2020. An interest of 4.2 per cent had been recovered with effect from the year 2021. Action had been taken to enter into a formal agreement prior to granting loans. Provisions of the Establishments Code should be followed. Disciplinary action should be taken against the officers failing to do so.
- c) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka. The annual survey on stores had not been conducted for the year under review. An annual survey on stores had been conducted by the end of the year 2021, and information Provisions of Financial Regulations should be followed.

thereof had been provided for you.

- d) Budget Circular, No. 133(1) dated 09 March 2007, and Public Administration Circular, No. 30 /2008 dated 31 December 2008. Officers should be given loans subject to a maximum of Rs. 250,000, but having exceeded that limit, loans totalling Rs. 1,881,833 had been given to 04 officers in the year under review. The maximum limit on distress loans was Rs. 250,000 though, a personal loan ten times the basic salary, is given under approval of the Regulatory Council. Provisions of Circulars should be followed.
- e) Public Enterprises Circular, No. PED/03/2018 dated 07 December 2018, and Public Enterprises Circular, No. PED/03/2021 dated 15 December 2021. According to the provisions of Circulars, bonus amounting to Rs. 3,000 would be paid to each employee for the year under review. However, 11 officers and employees had been paid bonus each receiving Rs. 13,500. The overpaid amount was Rs. 115,500. Bonus had been paid considering the performance of employees in accordance with approval of the Council and the Circular, No. PED/03/2020. Provisions of Circulars should be followed. Disciplinary action should be taken against the officers failing to do so.
- f) Public Administration Circular, No. 03/2017 dated 19 April 2017. Records on the arrival and departure times of employees of all the Government institutions should be maintained through finger scanners. As such, a finger scanner had been purchased on 24 The finger scanner had not been used owing to the Corona outbreak. It is expected to use the finger scanner once the pandemic is over. Circular provisions should be followed. Disciplinary action should be taken against the officers failing to do so.

July 2020  
incurring a sum of  
Rs. 57,240, but the  
machine had not  
been made use of  
even by 20 April  
2022.

- g) Paragraph 5.2.5 of Public Enterprises Circular, No. PED/12, dated 02 June 2003. A copy of the annual budget approved by the Board of Directors should have been presented to the Auditor General prior to 15 days of the commencement of the financial year. However, the budget for the year under review that had not been approved by the Board of Directors, was presented to the Audit on 26 February 2022 after the end of the year. The budget for the year under review had been presented to you on time. Provisions of the Circular should be followed.
- h) Cabinet Decision, No. 21/Misc (032) dated 15 June 2021, and Letter, No. MH/Add/Sec/Admi n1/16/2021 of the Secretary to the Ministry of Health dated 16 June 2021. Although the staff of the Regulatory Council had not been entitled to the special monthly allowance of Rs. 7,500 approved to be paid monthly to the health service staff for a period of 03 months from June to August 2021, a sum of Rs. As per the Circular, No. PED 03/2020 for the Government officers and approval of the Council, out institution functions under the Ministry of Health and the scope of the Director General of Health. As Action should be taken in accordance with the Cabinet Decision. Payments made contrary to that, should be recovered from the parties responsible.



225,000 had been incurred for paying that special allowance to the staff of the Regulatory Council. such, the monthly allowance of Rs. 7,500 paid to the health service staff for the period of 03 months from June to August, 2021 had also been paid to the employees of the Regulatory Council.

- i) Guideline 4.2 of the Government Procurement Guidelines. A Procurement Plan had not been prepared by the Regulatory Council. It is expected to prepare a Procurement Plan for the 03 ensuing years in terms of provisions of the Government Procurement Guidelines and implement under approval of the management committee and the monthly committee. Action should be taken in accordance with the Government Procurement Guidelines.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review was a loss of Rs. 692,194 as compared to the corresponding loss of Rs. 6,048,680 for the preceding year, thus observing an improvement of Rs. 5,356,486 in the financial result. This improvement had mainly been attributed by the decrease in administrative expenses.

### 3. Operating Review

#### 3.1 Performance

Audit Observation	Comment of the Management	Recommendation
<p>a) According to the information made available to the Audit, 2,011 private medical institutions had been established in 09 provinces as of 31 December 2021, but there were only 1,194 registered private medical institutions.</p>	<p>A performance plan has been prepared for the year under review with the knowledge of the Council. Many of the medical institutions remained closed due to Covid-19 in the years 2020 and 2021. Due to the decreased number of applications for the registration of medical institutions, the income for the year 2021 had also decreased.</p>	<p>All the private medical institutions located island-wide should be registered.</p>
<p>b) A methodology could not be prepared and put in place in terms of Section 09 of the Private Medical Institutions (Registration) Act, No. 21 of 2006 to execute the activities such as, the development and monitoring of standards to be maintained by the registered Private Medical Institutions; implementation of the method of evaluation of standards maintained by such Private Medical Institutions; to ensure that minimum qualifications for recruitment and minimum standards of training of personnel, are adopted by all Private medical Institutions; and to ensure the quality of patient care services rendered or provided by such Private Medical Institutions.</p>	<p>As for the registration and renewal of registration by the private medical institutions, such institutions are supervised by the relevant Provincial Director of Health Service or a qualified panel of officers, and the Private Health Service Regulatory Council is requested for registration.</p>	<p>As action could not be taken in terms of Section 09 of the Act, special attention should be brought thereon, thus taking measures to convert the relevant guidelines into regulations.</p>

- c) Section 13 (1) of the said act states that 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. However, it had not been so done.
- Under the accreditation process, grading of private hospitals has already been commenced. The Department of Legal Draftsman has been requested through Legal Division of the Ministry to prepare a formal methodology in order to achieve the objectives of establishing the Regulatory Council, and preparation of guidelines for registration of private medical institutions & convert such guidelines into regulations.
- Action should be taken to formally propose and implement a methodology for the accreditation of private medical institutions.
- d) Action had not been taken in terms of Section 18(2) (g) of the said Act to prepare directives relating to the procedure or practice to be followed in entertaining any complaint against any Private Medical Institution or person attached thereto from any interested or aggrieved person, and the final disposal thereof.
- Formal guidelines should be prepared to examine at institutional level the complaints lodged by the general public against the private medical institutions; and, action is taken on such complaints under approval of the Council in accordance with those guidelines.
- Action should be taken to prepare procedures or practices to be followed in entertaining and disposing a complaint.

### 3.2 Management Inefficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
a) Cabinet approval had been received on 09 July 2015 to amend Section 3(5) of the Private Medical Institutions (Registration) Act, No. 21 of 2006 by including the provisions such as, the Provincial Director of Health Services should present an annual proposal along with the annual budget estimate relating to the development	Amendment of Section 3(5) of the Private Medical Institutions (Registration) Act, No. 21 of 2006 is in progress through the Legal Division of the Ministry under approval of the Council. Accordingly, 50 per cent of the registration fee income is paid to the relevant Provincial Council.	Action should be taken in accordance with provisions of the Act.

of private health sector prior to remitting 50 per cent of the annual registration fees collected by the Regulatory Council to the Provincial Chief Secretaries; and a report containing activities and expenses incurred by the end of the year, be presented. Even though a period of 06 years had elapsed, the Act had not been amended.

- b) All the private medical institutions should be registered in terms of Section 2(1) of the said Act; and a formal methodology had not been put in place by the Regulatory Council for the identification and registration of private medical institutions, and execute the provisions of Section 04 of the Act relating to the institutions refusing to register.
- It is further informed that the Provincial Directors of Health Services have been instructed that the unregistered institutions as per our database for the years 2020 and 2021 be categorized province wise and action be taken as necessary. It is informed that the Council has already instructed the Provincial Directors of Health Services to take legal action against the private medical institutions being maintained without registration. It is also informed that in case of legal action, such expenses will be borne by the Regulatory Council.
- Action should be taken in accordance with provisions of the Act.
- c) In addition to the Board of Governors appointed under Section 6(1) of the said Act, an office management committee comprising 09 members had been appointed, and without being formally approved, a sum of Rs. 105,000 had been paid as allowances in the year under review with each member receiving Rs. 5,000 per session of the meeting.
- Members of the Council are paid an allowance for their participation in the sub-committees including the monthly assembly. All of those allowances had been paid under approval of the Council.
- Action should be taken in accordance with provisions of the Act. The payments made contrary to that should be recovered from the parties responsible.

### 3.3 Transactions of Contentious Nature

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
a) There existed no provisions in the Act to incur expenses of the Provincial Councils. Nevertheless, the Regulatory Council had incurred a sum of Rs. 1,329,835 in the year under review to pay telephone allowances, travel expenses and salaries of the officers attached to the office of the Western Provincial Director of Health Services. That sum had been deducted from the registration fee income payable to the Western Provincial Council in terms of Section 3(5) of the said Act.	The Medical Officer employed at the office of the Western Provincial Director of Health Services had been recruited on contract basis under approval of the Regulatory Council and recommendation of the Western Provincial Director of Health Services. The payments on her salaries, travel expenses, and telephone charges, were made using the 50 per cent sum payable to that Provincial Council.	Action should be taken in accordance with provisions of the Act.
b) It is not a duty of the Regulatory Council to display registration information at the premises of private medical institutions registered under the Council. However, the Regulatory Council had spent a sum of Rs. 17,085,102 during the period of 11 years from 2011 up to the year under review to fix new sign boards and refill the old ones.	We made all the purchases under a proper procedure. Furthermore, registration of suppliers has been commenced through trilingual advertisements published in newspapers. Necessary action has been taken to make procurements with transparency in accordance with Procurement Guidelines	Expenses should be incurred only on the activities authorized to execute under the Act.

### 3.4 Human Resource Management

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
Action had not been taken since the inception of the Regulatory Council to obtain approval on cadre and make recruitments in line with the	In order to ensure smooth functioning of the Council which had only 02 officers since its inception, recruitments had been made from time to time in accordance with a	Approval should be obtained on the staff, and recruitments should be made

responsibilities of the Council. Ten officers had been recruited as at 31 December 2021 without being approved by the Department of Management Services.

proper methodology. The Scheme of Recruitment has been prepared in accordance with responsibilities of the Council, but approval of the Department of Management Services has not been sought owing to a policy decision taken by the Council.

accordingly.

#### 4. Accountability and Good Governance

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##### 4.1 Internal Audit

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Audit Observation	Comment of the Management	Recommendation
An Internal Audit Unit had not been established for the Regulatory Council contrary to Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka and Management Audit Circular, No. DMA/1-2019 dated 12 January 2019.	An Internal Audit Unit has not been established for the Regulatory Council. The audits are carried out by the National Audit Office annually. It is expected to establish an Internal Audit Unit in due course.	Action should be taken in accordance with provisions of the Financial Regulations and Circulars.

##### 4.2 Audit Committee

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Audit Observation	Comment of the Management	Recommendation
According to Management Audit Circular, No. DMA/1-2019 dated 12 January 2019, four sessions of audit and management committee meetings should be held per year at one session for each quarter. However, none of such meetings had been conducted by the Regulatory Council during the year under review.	Meetings of the management committee could not be held due to Covid-19 pandemic in the year under review. This situation will be avoided in the year 2022.	Action should be taken in accordance with provisions of Circulars.

## 4.3 Sustainable Development Goals

Audit Observation	Comment of the Management	Recommendation
<p>Due to the Regulatory Council being unaware of the Circular, No. NP/SP/SDG/17 of the Secretary to the Ministry of National Policies and Economic Affairs dated 14 August 2017 and "Year 2030 Agenda" of the United Nations on sustainable development, action had not been taken to identify the sustainable development goals and targets under scope of the Council, milestones in reaching those targets, and the indicators to measure the achievement of such targets.</p>	<p>The Regulatory Council is aware of the said Circular and the "Year 2030 Agenda" of the United Nations. Accordingly, the activities relevant to the Regulatory Council have been identified and executed in accordance with the Circular, No. 01-13/2019 of the Ministry of Health dated 2019/02/13. Furthermore, action is being taken to achieve the targets in cooperation with the programs conducted by the tuberculosis prevention unit and the National Cancer Control Programme. Cooperation with such programs will be ensured in due course as well.</p>	<p>The Regulatory Council should be aware of the "Year 2030 Agenda" of the United Nations on sustainable development and the relevant Circular; and, action should be taken to identify the sustainable development goals and targets under scope of the Council, milestones in reaching those targets, and the indicators to measure the achievement of such targets.</p>

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