Private Health Services Regulatory Council – 2012

The audit of financial statements of the Private Health Services Regulatory Council for the year ended 31 December 2012, comprising the statement of financial position as at 31 December 2012 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 Council 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 describe 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 Disclaimer 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 01

(i) In terms of paragraph 38, of the standard an assessment of the entity's ability to continue as a going concern had not been estimated in the preparation of the financial statements and in terms of paragraph 132 (c) of the standard, the accounting policies used that are relevant to an understanding of the financial statements had not been disclosed.

(ii) In terms of paragraph 108 of the standard, eventhough 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.11,921,000 received as registration fees in the year under review.

(b) Sri Lanka Public Sector Accounting Standard 07

Eventhough 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 and 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 2012 disclosed that direct deposit in the bank a sum of Rs.23,461,250 received during year 2008 to 31 December 2012 had not been identified and accounted annually as income as at 31 December 2012. Further, based on the receipts forwarded by the customers, as a proof of direct deposits money in the bank, a sum of Rs.18,921,895 had been identified as income but as per the bank reconciliation statement as on 31 December 2012 that money had not received to the bank. As such, relevancy, accuracy, completeness, and reliability of Rs.11,921,000, identified as registration income in the year under review, could not be verified.

(b) A sum of Rs.1,649,311 interest income on matured Treasury Bills, directly received to bank in the year under review and in the preceding year, had not been accounted.

(c) A sum of Rs.4,500,000 in three instances in the preceding year and Rs.4,000,000 in one instance in the year under review had been transferred from the current account of the Regulatory Council to the saving account of the Regulatory Council and a sum of Rs.1,000,000 had again transferred from saving account to the current account. but the debit entries and credit entries of that transaction had not been posted in the cash book and equal amount a sum of Rs.7,500,000 had been shown as a current liability in the statement of financial position for balancing the accounts.

(d) Bank charges of Rs.9,100 and Bank debit tax of Rs.34,752 charged by the bank for the period from the year 2007 to 31 December 2012 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 2012, which shown less in the bank than the cash book. Further, a difference of Rs.508,901 had in between the cash book balance and the cash book balance shown in the bank reconciliation statement.

2.2.4 Lack of Evidence for Audit

Treasury bills certificates for sum of Rs.10,000,000 as on 31 December 2012 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
(a) Section 11 of the financial Act, No.38 of 1971	A sum of Rs.12,891,078 had been invested in fixed deposits by the Council as on 31 December 2012 in fixed deposits without taking approval of the appropriate Minister and the Finance Minister.
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka . (i) Financial Regulations 139(6) and 141(3)c	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. Nevertheless, seven cheques valued for Rs.2,331,000 had been issued in the year under review.

	(ii) Financial Regulation 384(2)	All cheques should be crossed for security purpose of the cheques, but eleven cheques valued for Rs.2,482,961 had been issued without crossing during the year under review.
	(iii) Finance Regulation 386 (4)	The validity of all cheques issued should be restricted to thirty days from the date of issue. Nevertheless, cheques had been issued without restricting validity period during the year under review.
	(iv) Finance Regulation 388 and 389	A register for cheques despatched had not been maintained.
	(v) Finance Regulation 396(d)	Action had not been taken as per Finance Regulations for 02 cheques uncashed more than six months valued for Rs.21,500.
	(vi) Finance Regulation 395	Eventhough a bank reconciliation statement should be prepared as at the end of each month, before 15th of the following month, but the Council had not prepared monthly bank reconciliations statement for the year under review and one bank reconciliation statement had been prepared and forwarded for the whole year ended 31 December 2012.
(c)	Treasury Circular No. 842 of 19 December 1978	A fixed assets register had not been maintained for non current assets costed for Rs.1,110,940 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.2,057,342 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 deficit of Rs396,446 as compared with the corresponding surplus of Rs. 1,304,722 for the preceding year, thus indicating a deterioration of Rs.1,699,168 in the financial result of the year under review as compared with the preceding year. Despite of increase in the other income of the Fund by Rs.730,450 the increase in the Administration expenses by Rs.2,685,654 had been the main reasons for this deteriration.

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 2008 amounted to Rs.5,544,834 had been fluctuated and had deficit of Rs.394,446 at the year 2012. In re- adjusting the employee emoluments and depreciations for non-current assets to the financial result the contribution of the years, 2008, 2009, 2010, 2011 and 2012 had a sum of Rs.6,711,807, Rs.2,871,214, Rs.2,530,453, 2,721,073 and Rs.1,201,872 respectively. The contribution compared from year 2008 to the year 2010 had deteriorated by 57 per cent, 12 per cent respectively and it had increased by 7 per cent in 2011 but had again deteriorated by 56 per cent in 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 Performance and Review

The following observations are made.

(a) An idea in the performance of the Regulatory 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 Institutions (Registration) Act No. 21 of 2006, all the Private Medical Institutions should be registered. While 1,747 Private Medical Institutions had been registered at the establishment of the Council in 2007 but only 415 institutions had been registered at the end of the year under review and registration had declined by 76 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 was 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 even at the end of the year under review.

   (i) The development and monitoring of standards to be maintained by the registered Private Medical Institutions.

(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, eventhough 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 identifying the Council functions and the scope since the establishment of the Council to the end of the year under review and an officer for the post of Management Assistant had been reqcruited without the approval of the Department of Management Services in 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, the Private Health Services Regulatory Council should be a corporate body. Accordingly, the Finance Act No.31 of 1971 is applicable for the Council and, eventhough in accordance with the section 13(1) of the Act, the annual accounts 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 five years delay on 08 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 made new registrations. A sum of Rs.1,725,700 had spent to procure 595 name boards in 03 instances 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, eventhough 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 meetings and monthly meetings of the Regulatory Council.

(ii) In terms of section 3.6.1 of the Government Procurement Guidelines, repeat orders for the procurement of goods may be authorized only up to a limit of fifty per cent (50%) of the original contract value provided that not more than a six month period had lapsed from the date of award of the original contract. But violating the above two limits, after lapse of six months from the date of original contract awarded on 03 November 2011, without recalling bids a sum of Rs.1,725,700 spent and procured 460 small name boards at Rs.2,620 each, 75 medium name boards at Rs.3,620 each, and 60 large name boards at Rs.4,150 each from the same supplier in 03 instances during June 2012 to October 2013.

(iii) The fairness of the cost of the procurement could not be justified as explicit specifications had not be prepared for 595 name boards procured during the year under review.

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