

Private Health Services Regulatory Council – 2013

The audit of financial statements of the Private Health Services Regulatory Council for the year ended 31 December 2013, comprising the statement of financial position as at 31 December 2013 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 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, 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, 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.18,705,085 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 2013 disclosed that direct deposit in the bank a sum of Rs.30,975,750 received during years 2008 to 31 December 2013 had not been accounted annually as income as at 31 December 2013. Further, based on the receipts forwarded by the customers as a proof of direct deposits money in the bank a sum of Rs.26,310,395 had been identified as income but as per the bank reconciliation statement as on 31 December 2013 that money had not been received to the bank. As such, relevancy, accuracy, completeness, and reliability of Rs.18,705,085, identified as registration income in the year under review, could not be verified.
- (b) A sum of Rs.12,730,901 interest income on matured Treasury Bills, directly received to bank, in the year under review and in the last two preceding years had not been accounted.

- (c) A sum of Rs.8,500,000 in four instances in the last two year preceding years and Rs.5,000,000 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.3,000,000 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 for purpose of balancing the accounts a sum of Rs.10,500,000 had been shown as a current liability in the statement of financial position.
- (d) As per the Bank reconciliation statement prepared as at 31 December 2013, a sum of Rs.10,440,000 received from the sale of Treasury Bills and a sum of Rs.10,225,270 incurred for the purchase of Treasury Bills during the year under review had not been accounted.
- (e) Bank charges of Rs.11,470 and debit tax of Rs.34,752 charged by the bank for the period from year 2007 to 31 December 2013 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 2013, which shown less in the bank than the cash book. Further, a difference of Rs.493,899 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 2013 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 04 cheques deposited in the year 2008 amounted to Rs.292,546 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 and 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.14,085,716 had been invested by the Council as on 31 December 2013 in fixed deposits without taking approval of the Appropriate Minister and the Finance Minister.

<p>(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka .</p> <p>(i) Financial Regulations 139(6), 141(3)c</p> <p>(ii) Financial Regulation 384 (2)</p> <p>(iii) Financial Regulation 388 and 389</p> <p>(iv) Financial Regulation 395</p> <p>(v) Financial Regulation 396(d)</p> <p>(c) Treasury Circular No. 842 of 19 December 1978</p> <p>(d) Treasury Circular No. IAI/2002/02 dated 28 November 2002.</p>	<p>The officer who is empowered to make payment by cheque and the signatories of the 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, a payment had been made by a cash cheque valued for Rs.40,350 during the year under review.</p> <p>All the cheques should be crossed for the security purpose of the cheques, but six cheques valued for Rs.780,590 had been issued without crossing during the year under review.</p> <p>A register for cheques despatched had not been maintained.</p> <p>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 a bank reconciliation statement had been prepared and forwarded for the whole year ended 31 December 2013.</p> <p>Action had not been taken as per Finance Regulations for 02 cheques valued for Rs.21,500 uncashed more than six months.</p> <p>A fixed assets register had not been maintained for non current assets costed for Rs.1,178,340 remained at the end of the year under review.</p> <p>A fixed assets register had not been maintained for computers and softwares costed for Rs.2,225,140 remained at the end of year under review.</p>
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3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Council for the year under review amounted to a surplus of Rs. 3,851,004 as compared with the corresponding deficit of Rs.394,446 for the preceding year, thus indicating a improvement of Rs.4,245,450 in the financial result of the year under review as compared with the preceding year. Despite of increase in the Provincial Council Contribution by Rs.2,248,000, the increase in the Registration Charges Income by Rs.6,784,085 had been the main reason 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 Council in the year 2009 amounted to Rs.1,437,716 had been fluctuated and had a surplus of Rs.3,851,004 at the year 2013. In re- adjusting the employee emoluments and depreciations for non-current assets to the financial result the contribution of the years 2009, 2010, 2011, 2012 and 2013 had a sum of Rs.2,871,214, Rs.2,530,453 and Rs.2,721,073, Rs.1,201,872 and Rs.6,171,947 respectively. The contribution compared from year 2009 to the year 2010 had deteriorated by 12 per cent and had improved by 7 per cent in 2011 but it had again deteriorated by 56 per cent in 2012. However, the contribution of the year under review had improved by 413 per cent compared to the preceding year.

4. Operating Review

4.1 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.

4.2 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 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 656 institutions had been registered at the end of the year under review and registration had declined by 62 per cent. An investigation had not been conducted to find out the reasons for the decrease of registrations, may due to the close up the Medical Institutions 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 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 recruitment 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.

4.3 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 but a Management Assistance in 2012 and an Accounts Assistant in 2013 had been recruited without approval of the Department of Management Services.

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 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 four years delay on 28 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. Bids had been recalled in October 2013 for the second time after 03rd November 2011 and the contract had been awarded to the minimum bid submitted by the same supplier on 22 October 2013 and procured 160 small name boards at Rs.2,400 each, 60 medium name boards at

Rs.2,900 each, and 20 large name boards at Rs.3,550 each and, as such, 240 name boards had been procured by spending Rs.629,000.

The following observations are made in this regards.

- (i) In terms of paragraph 2.4.1 of the Government Procurement Guidelines, eventhough entire procurement 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 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 to verify that, how many suppliers had been sent the bid invitations, how did send the bid invitations, and how did receive the bids had not been furnished to the audit.
 - (iv) In terms of paragraph 6.3.6 of the Government Procurement Guidelines, the bid opining activities should be reported in the stipulated format and should be signed by the members of the bid opening committee but such a methodology had not been followed.
 - (v) In one instance three suppliers had forwarded bidding documents but in two bidding documents submitted by two suppliers had not mentioned the addresses or telephone numbers.
- (c) While renewing the annual registration of Private Health Institutions the old name board will be re-filled by inserting the new year adding new part by the Regulatory Council. A sum of Rs.244,820 had been incurred in 06 instances to refill 253 name boards during the year under review. The following observations are made in this regards.
- (i) Bids in two instances to refill old name Boards of Private Health Institutions which renewed annual registration had been forwarded as follows by the same supplier who supplied new name boards.

Category of name boards	Bid forwarded on 07 June 2012	Bid forwarded on 28 June 2012
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	Rs.	Rs.
Large	1,250	1,050
Medium	990	900
Small	850	820

Any written evidences were not furnished to the audit to verify the bids had been called or bids had been submitted by other institutions.

- (ii) In four instances the name boards were refilled at lowest bids furnished on 28 June 2012 and in two instances name boards were refilled at maximum bid rate. As such, a sum of Rs.6,470 had been over paid to refill 45 name boards such as, a sum of Rs.2,070 for 23 medium name boards at Rs.90 each, and a sum of Rs.4,400 for 22 large name boards at Rs.200 each.

5.4 Budgetary Control

The budget had not been prepared for the year under review 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
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(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 reconciliations, and weakness of maintaining cash book.