Private Health Services Regulatory Council – 2014

The audit of financial statements of the Private Health Services Regulatory Council for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, and the 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 an 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 of the Standard, an assessment of the entitys' ability to continue as a going concern had not been estimated in the preparation of the financial statement 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.16,362,829 received as registration fees in the year under review.

(b) Sri Lanka Public Sector Accounting Standard No.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 prepared as at 31 December 2014 disclosed that direct deposits in the bank a sum of Rs.38,965,990 received during year 2008 to 31 December 2014 had not been identified and accounted annually as income. Further, based on the receipts forwarded by the customers, as a proof of direct deposits money in the bank, a sum of Rs.31,732,395 had been identified as income but as per the bank reconciliation as on 31 December 2014 that money had not been received to the bank. As such, relevancy, accuracy, completeness, and reliability of Rs.16,362,829, identified as registration income in the year under review, could not be verified.

(b) As per the Reconciliation prepared and presented for the year under review. a sum of Rs.31,839,714 directly received to the bank as and bill values on matured interest income Treasury Bills in the year under review had not been accounted.

(c) A sum of Rs.13,500,000 in five 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 transactions 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) The brought forwarded credit balance of Rs.10,500,000 in the Funds Transfer Accounts from the previous year had been carried forwarded as a debit balance at the beginning of the year under review. But the way of balanced the accounts had not been disclosed.

(e) As per the Bank Reconciliation prepared and presented for the year under review, direct payments made by the in 03 instances to purchase Treasury Bills amounted to Rs.30,874,170 had not been accounted.

(f) Bank charges of Rs.4,800 charged by the bank for the period starting year 2007 to 31 December 2014 had not been taken to accounts.

2.2.3 Unexplained Differences

Detail for Rs.615,000 adjusted to the bank reconciliation prepared for the year ended 31 December 2014, which shown less in the bank than the cash book, had not been furnished to the audit. Further, a difference of Rs.1,789,524 had in between the cash book balance and the cash book balance shown in the bank reconciliation.

2.2.4 Lack of Evidence for Audit

The evidence indicated against each item of accounts shown below had not been made available for audit, hence those could not be satisfactorily verified and accepted.

Subject	Value Rs.	Evidence not made
(a) Treasury Bills	10,000,000	A register including Treasury Bills numbers, date of deposit, date of mature and value.
(b) Receivable Treasury Bills Interest	1,881,538	Ledger Account
(c) Petty Cash Expenses	300,000	Ledger Account
(d) Accumulated Fund	23,291,120	Ledger Account
(e) Registration Fees Income	16,362,829	Ledger Account

2.3 Accounts Receivables

Action had not been taken to recover the value of unrealized 06 cheques deposited in the year 2008 and in the year under review amounted to Rs.322,546 from the relevant parties.

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

The following Non-compliances with Laws, Rules Regulations and Management Decisions 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.24,085,716 had been invested in fixed deposits by the council as on 31 December 2014 in without taking approval of the Appropriate Minister and the Finance Minister.
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka .	
(i) Financial Regulation 384 (2)	Even though, all the cheques should be crossed for the security purpose of the cheques, two cheques valued for Rs.128,340 had been issued without crossing during the year under review.
(ii) Financial Regulation 388 and 389	A register for cheques despatched had not been maintained.
(c) Treasury Circular No. 842 of 19 December 1978	A fixed assets register had not been maintained for non current assets costed for Rs.1,178,340 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.2,225,140 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 Regulatory Council for the year under review amounted to a surplus of Rs. 1,170,827 as compared with the corresponding surplus of Rs. 3,851,004 for the preceding year, thus indicating a deterioration of Rs.2,680,177 in the financial result of the year under review as compared with the preceding year. The decrease in the Registration Charges Income by Rs.2,342,256 had been the main reasons for this deterioration.

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 2010 amounted to Rs.970,888 had been fluctuated and had a surplus of Rs.1,170,827 at the year 2014. In re- adjusting the employee emoluments and depreciations for non-current assets to the financial result the contribution of the years 2010, 2011, 2012, 2013 and 2014 had a sum of Rs.2,530,453, Rs.2,721,073, Rs.1,201,872, Rs.6,171,947 and Rs.3,739,840 respectively. The contribution compared from year 2010 to the year 2011 had improved by 7 per cent and had again deteriorated by 56 per cent in 2012 and had improved by 413 per cent in 2013. However, the contribution of the year under review had again deteriorated by 39 per cent compared to the preceding year.

4. Operating Review

4.1 Performance

4.1.1 Planning

Eventhough in terms of section 5 of the Public Enterprises circular No.PED/12 of 02 June 2003 a corporate plan for not less than three years had to be prepared to accomplish the Regulatory Council vision and mission, the council had not prepared a corporate plan.

4.1.2 Performance 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 Institutions (Registration) Act No. 21 of 2006, all Private Medical Institutions should be registered. While 1,747 Private Medical Institutions were registered at the establishment of the Council in 2007 only 757 institutions had registered at the end of the year under review and registration had declined by 57 per cent. An investigation had not been conducted to find out the reasons for 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 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 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 Assistant 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.38 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, the Regulatory Council had rendered the financial statements for the year under review to the audit with three years delay on 13 July 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 had been given for displaying by the Regulatory Council to all Private Medical Institutions who made new registrations. In terms of guideline 3.6.1 of the Government Procurement guidelines, repeat orders for the procurement of goods may be authorised up to a limit of fifty per cent of the original contract value, provided that not more than a six months period had lapsed from the date of award of the original contract. But violating those two limits, after lapsed of six months from the date of award of original contract in October 2013, without recalling bids a repeat order had been given to the same supplier in June 2014 had procured 200 small name boards at Rs.2,400 each, 100 medium name boards at Rs.2,900 each and by spending Rs.770,000.

(c) While renewing the annual registration of Private Health Institutions the old name board will be re-filled by inserting the new year adding a new part by the Regulatory Council. A sum of Rs.800,180 had been incurred in 09 instances to refill 838 name boards during the year under review. The following observations are made in this regards.

(i) Bids had been submitted in two instances to refill old name Boards of Private Health Institutions which renewed annual registration by the same supplier who supplied new name boards. Details as follows.

Category of name boards	**Bid forwarded on 07 June 2012**	**Bid forwarded on 28 June 2012**
	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 any other institutions.

(ii) The name boards had not been refilled at lowest bids furnished on 28 June 2012 but name boards had been refilled at higher bid rates in nine instances. As such, a sum of Rs.62,590 had been over paid to refill 838 name boards such as, a sum of Rs.14,610 for 487 name boards at Rs.30 each, a sum of Rs.18,180 for 202 medium name boards at Rs.90 each, and a sum of Rs.29,800 for 149 large name boards at Rs.200 each.

(iii) In terms of guideline 3.6.1 of the Government Procurement Guidelines, repeat orders for the procurement of goods may be authorised up to a limit of fifty per cent of the original contract value, provided that more than six months period has lapsed from the date of award of the original contract. But violations above two limits, after lapsed of six months from June 2013, 838 name boards had been re-filled from the same supplier without recalling bids and incurred Rs.800,180 in 09 instances from January 2014.

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	Not maintaining fixed assets registers and weaknesses of maintaining cash books, delays in preparing bank reconciliations not accuracy in delayed reconciliations, not accurancy of all ledger cards and omission of some accounts from the ledger.