

Private Health Service Regulatory Council - 2023

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Private Health Service Regulatory Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 the Basis for Qualified Opinion section of this report, the financial statements give a true and fair view of the financial position of the Regulatory Council as at 31 December 2023, 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

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

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

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 skepticism 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 related to the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The income earned from registration fees amounting to Rs.2,117,565 received in the year under review had been specifically identified and it had not been accounted and indicated as unrecognized income in the financial statements.	That the council has introduced accounting software and online registration systems to address these issues in the future.	Income earned from registration fee should be specifically identified and accounted.
(b) Due to accounting payments amounting to Rs.494,198, which had not been accounted as accrued expenses in the previous years, as expenses in the year under review, the profit of the year under review had been understated by that value in the financial statements and that amount had not indicated under prior year adjustments.	That this situation has arisen due to not receiving requests for payments for the secretarial services of the Regulatory Council for a longer period.	Expenses related to the period should be identified and they should be accounted properly.
(c) Instead of identifying and making necessary adjustments, the suspense account balance amounting	That steps have been taken to correct the issue.	Suspense account balance should be identified and necessary

Rs.232,400, which had arisen due to non-balancing of the accounts, had been indicated as a balance in the funds transfer account.

adjustments should be made.

1.5.2 Going Concern of the Organization

Audit Observation	Comments of the Management	Recommendation
Since there had been a negative balance amounting to Rs 48,438,734 in net current assets as at 31 December 2023, it was observed that there had been a short-term insolvency in the Regulatory Council. As Regulatory Council had been operated at loss continuously from the year 2017, the accumulated fund of Rs.33,719,154 existed as at 31 December 2016 had gradually decreased to Rs.10,371,883 by 68 percent by 31 December 2023.	It has been decided to take immediate measures to mitigate and overcome this situation, and to take measures to increase registration fees by 50 percent from 2024, to implement fines and penalty charges, to increase registration, to expand the scope of the authorized officer under the Act, to take legal action by provincial directors against the institutions that have not been registered, to introduce electronic registration systems and to reduce costs.	Action should be taken to register all the private medical institutions operating in the country and to increase the income and to reduce the costs of the institution in order to get rid of the short-term insolvency and to minimize the incurring of losses continuously.

1.5.3 Lack of Written Evidence for Audit

Subject	Amount Rs.	Evidences not Made Available	Comments of the Management	Recommendation
(a) Property, plant and equipment and inventory items	3,255,035	detailed schedules	That proper books had not been maintained for property, plant and equipment from the year 2007. However, corrective action has been taken from the year 2018.	Detailed schedules should be submitted.
(b) Expenditure	2,826,544	Money acknowledge ment receipts or written evidences	Submission of the related expense documents for investigation	These all information should be immediately forwarded to the audit.

which verify
the relevant
expense

1.6 Non-compliance with laws, rules, regulations and the management decisions

Reference to laws, rules, regulations	Non-compliance	Comment of the Management	Recommendation
(a) Public Enterprises Circular No. PED 04/2023 dated 11 December 2023	An institution which had reported a loss in the financial year 2022 can't pay the bonus to the workers and in non-compliance with that, even though the loss of Rs. 5,372,457 had occurred to Regulatory Council in 2022 an amount of Rs. 525,000 had been paid as bonus in the year under review.	The bonus had been approved for implementation of the Regulatory Council with minimum workers, motivation of workers and the deduction of leave.	The steps should be taken as per the provisions of the circular.
(b) Operational Manual issued by the Department of Public Enterprises on 16 November 2021			
i. Paragraph 3.1	Even though the approval of the General Treasury should be obtained for the staff, no action was taken by the Regulatory Council accordingly.	This is a policy decision taken by the Council not to be registered in the General Treasury.	The action should be taken as per the provisions indicated in the Operational Manual.
ii. Paragraph 6.6	Even though the Annual Report including the annual financial statements with the Audit Report should be tabled to the Parliament within 05 months after ending the financial year, the Regulatory Council had not tabled the Annual Reports for	The steps had been already taken to be prepared the Annual Report 2023.	The action should be taken as per the provisions indicated in the Operational Manual.

2021 and 2022 to the Parliament up to 25 March 2024.

- (c) Paragraph 2.3 of the Guidelines issued by the Department of Public Enterprises on 16 November 2021
- A Strategic Plan, Action Plan and Annual Budget should be approved by the governing board having prepared such reports and even though those documents should be submitted to the Director General of Department of Public Enterprises through the Secretary of the line ministry, no action was taken accordingly.
- The accurate action will be taken from 2024 and a preliminary discussion had been held in relation to the registration in the Treasury.
- The action should be taken as per the provisions indicated in the Guidelines.
- (d) Financial Regulation 371 (5) amended by the Public Financial Circular 03/2015 dated 14 July 2015
- Even if the Ad-hoc Sub-Imprests should be settled within 10 days immediately after concluding the task for which the said imprests were obtained, a period from 10 to 25 days had been taken to settle 11 audited Sub-Imprests valued Rs. 1,060,300 out of 53 Ad-hoc Sub-Imprests worth Rs. 3,529,800 obtained in the year 2023. At 9 cases thereof, the balance after incurring the expenses was between 50 to 80 percent from the advance amount obtained. Further, 23 Ad-hoc Sub-Imprests amounting to a total of Rs. 1,679,300 had been issued 5 to 36 days before starting the relevant task.
- The actions will be taken in future according to this.
- The proceedings should be made as per the Financial Regulations.

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| (e) | Financial Regulation
756 of the Democratic
Socialist Republic of Sri
Lanka. | An annual board of Stock
survey had not been
done for the year under
review. | verification was not done
within the year
2023. | The proceedings
should be made as
per the Financial
Regulations. |
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2. Financial Review

2.1 Financial Result

The operational results in the year under review were a profit of Rs. 1,504,684 and the loss of the previous year as opposed thereto was Rs. 5,372,457. Accordingly, an increase of Rs. 6,877,141 was observed in the financial result. The increase of registration income had been mainly casual for this growth.

3. Operation Review

3.1 Management Inefficiency

Audit Observation	Comments from the Management	Recommendation
(a) As per the provisions of the sub-section 2(1) of the Private Medical Institutions Registration Act No. 21 of 2006, all the private medical institutions should be registered and a formal method had not been prepared and implemented by the Regulatory Council to identify and register the private medical institutions that should be registered and to implement the provisions under the section 4 of the Act regarding the institutions that do not get registered.	The private medical institutions not registered have been identified based on the database and the survey, the notification letters were sent to the institutions not registered, the newspaper notices were published in three languages, discussions were held with the legal consultants to take legal actions against the institutions not registered, the authorized officer and prosecuting officers were appointed and the discussions were held with the Inspector General of Police related to identifying the institutions not registered.	The actions should be taken to formulate and implement a formal method to identify the medical institutions that should be registered in the council, to implement the provisions of the section 4 of the Act regarding the institutions not registered.
(b) As per the Section 13 (1) of the Private Medical Institutions (Registration) Act No. 21 of 2006, it has been stated that the Minister may on the advice of the Council, by Order published in the Gazette, formulate and enforce schemes of accreditation	The required actions will be taken in future having due considerations.	The proceedings should be made as per the provisions of the said Act.

for private medical institutions, and such order should carry all the details specifying the facilities, services and any other factors constituting the criteria for accreditation. However, the orders related to these accreditation activities had not been made and turned into a law even by 31 December 2023.

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| (c) | <p>According to Section 18(2)(g) of the Private Medical Institutions (Registration) Act No. 21 of 2006, “On receipt of any complain made by a concerned or aggrieved person against any private medical institution or any person connected with it and finally dispose of such complain Although the Minister may issue directives regarding the procedure or practice to be followed, the Minister had not issued directives on this issue and the Private Health Services Regulatory Council had prepared only a guideline a 2-page document titled PHSRC Guideline 05 - Complains Handling Procedure regarding complains (which included 12 points) on 19 March 2021.</p> | <p>That the Regulatory Council has prepared a guideline for complain handling procedures and sent it to the Honourable Minister of Health</p> | <p>It should be done according to the provisions of that Act</p> |
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3.2 Operational inefficiencies

Audit Observation	Comments from the Management	Recommendation
(a) In the income of the year under review, Rs.4,078,250 or about 13 percent of the total income was included for previous years from 2012 to 2022. Due to the fact that no specific period for obtaining the annual registration was mentioned in the act or the pilot consultations, the registration	That the Regulatory Council had taken several steps to ensure timely registration, to take legal action against unregistered entities and to implement	Necessary steps should be taken to register the medical institutions within the stipulated time.

certificates for the relevant year had been issued after receiving the money for the registration of the medical institutions on whoever date and due to the fact that no fine was charged, the income due to the council had been received late at the beginning of the year.

finer and penalty charges and introduce e-registration systems.

- (b) Although the medical officers working in private medical institutions are registered doctors of the Sri Lanka Medical Council, the regulatory council had not published standards or criteria for the employees of the nursing and paramedical services working in private medical institutions and it was observed that it has not fulfilled its responsibility in this regard. It was observed that the regulatory council is responsible for granting licenses to private medical institutions without introducing formal standards or criteria regarding these services and without proper assessment of the professional qualifications of the employees employed in these services.
- (c) As per section 11 of the Act, it is stated therein that, where the Council determines that it is required to assign functions and duties to a member or members of the Council or to a committee comprising members of the Council, "such member or members or the Committee to whom such duties and functions are assigned, should carry out them subject to the general control and directives of the Council." Accordingly, although the sub-committees are not empowered to appoint persons who are non-members of the Governing Body of the Regulatory Council, a female officer had been appointed to the training sub-committee as an observer from the year 2017.
- That these issues were discussed and taken action in the council meeting and Agreed with the audit observation
- Private medical institutions should properly implement the regulatory function provided by the Act to ensure that minimum qualifications are followed in the recruitment of staff and that minimum standards are followed in the training of staff. It should be done according to the provisions of the Act.
- That the former Director of Nursing had been appointed by the Training Committee as an observer of the Sub-Committee to gain some understanding of her expert knowledge.
- Should act upon the provisions of the Act.

4. Accountability and Good-governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
As per chapter 4.4 of the guidelines issued on 16 November 2021 by the Department of Public Enterprises, although an Internal Audit Unit should be established, no such action had been taken.	That this matter would be discussed at the next Council meeting.	Should act upon the provisions in Circulars.

4.2 Audit Committee

Audit Observation	Comments of the Management	Recommendation
As per Audit Management Circular No DMA/1-2019 dated 12 January 2019, although 04 Audit Management Committee meetings should be conducted per year one meeting for each quarter, Regulatory Council had conducted only 02 Audit Management Committee meetings.	That action would be taken to conduct Audit Management Committee meetings in the year 2024.	Should act upon Circular provisions.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Due to not being made aware of the Circular No NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary of the Ministry of National Policies and Economic Activities and the “United Nations 2030 Agenda for Sustainable Development”, no action had been taken on functions fallen within the scope to identify sustainable development goals, targets and the milestones to reach those targets and indicators to measure reaching on targets. Although this situation had been highlighted over the last 06 years, responsible parties had not paid their attention.	That action would be taken accordingly in the future.	After the Regulatory Council being aware of the relevant Circular and the “United Nations Agenda of 2030” for sustainable development, action should be taken on functions fallen within the scope to identify sustainable development goals, targets and the milestones to reach those targets and ratios to measure on reaching targets.