

1.1 Qualified Opinion

The audit of the financial statements of the Private Health Services Regulatory Council for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, 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 the Finance Act, No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution is tabled in due course.

In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements give a true and fair view of the financial position of the Regulatory Council as at 31 December 2019, 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 paragraphs 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 determine 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 matters related to going concern and using the going concern basis of accounting unless management either intends 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 Regulatory Council.

1.4 Auditor's Responsibility for the Audit of 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit 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 auditor's 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 auditor's 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 132(a) of Sri Lanka Public Sector Accounting Standard 1, the measurement basis used in preparing the financial statements had not been disclosed. Even though a sub-classification of total revenue, classified in a manner appropriate to the entity's operations shall be presented, revenue of Rs.23,046,000 received as registration fees of the year under review had not been classified and presented.	That a procedure relating thereto is not available and a new accounting system for the year 2021 is due to be introduced.	Action should be taken in terms of Sri Lanka Public Sector Accounting Standard 1.

(b) In terms of paragraph 65 -do- of Sri Lanka Public Sector Accounting Standard 7, useful life of non-current assets had not been reviewed annually and action had not been taken to indicate the fair value of those assets in the financial statements.

Action should be taken in terms of Sri Lanka Public Sector Accounting Standard 7.

1.5.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
(a) Provision for payment of gratuity had not been made on behalf of 10 officers and employees of the Regulatory Council.	That a formal procedure is due to be formulated therefor by the year 2021.	Provision for payment of gratuity should be made.
(b) A procedure for identifying and accounting the revenue from registration fees received directly to the bank had not been identified and implemented. As such, a total sum of Rs.8,489,500 received directly to the bank in 805 instances during the year under review had been credited to a suspension account without taking action to identify and account them. Moreover, a sum of Rs.1,086,000 received directly to the bank in the years 2016 and 2017 had been brought to account as revenue from direct deposits under other revenue in the year under review without taking action to identify and account them.	That it will be replied by holding discussions on errors occurred relating thereto.	Action should be taken to identify and account the revenue from registration fees received directly to the bank.

1.5.3 Lack of Evidence for Audit

Item	Amount Rs.	Audit Evidence not made available	Comments of the Management	Recommendation
(a) Property, Plant and Equipment	3,844,044	(i) Fixed Assets Register (ii) Detailed Schedules	Will be replied in future	All information necessary for auditing should be made available.
(b) Payables	28,582,539	(i) Age Analysis (ii) Confirmation of Balances	-do-	-do-
(c) Fund Transfer Account	232,400	Schedules	-do-	-do-

1.5.4 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
Action had not been taken even in the year under review to settle a sum of Rs.28,306,439 of the 50 per cent to be remitted to the Provincial Council out of the revenue from the registration fees charged by the Regulatory Council.	That action has been taken in accordance with regulations determined by the Council regarding the 50 per cent to be remitted to the relevant Provincial Council, out of the revenue from registration fees.	Action should be taken in terms of provisions specified in the Act in this connection.

1.6 Non-compliance with Laws, Rules, Regulations etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 11 of Finance Act, No.38 of 1971	A sum of Rs.41,904,716 had been invested in fixed deposits by 31 December of the year under review by the Regulatory Council without obtaining approval of the Minister In - Charge of the Ministry and the Minister of Finance.	Will be replied in future in this connection	Action should be taken in terms of Section 11 of Finance Act.

(b) Financial Regulations
of the Democratic
Socialist Republic of
Sri Lanka

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- (i) Financial Regulations 135, 136 and 262(2)
- The Regulatory Council had not delegated powers for financial control. As such, payments had been made for unapproved vouchers. Further, vouchers paid had not been stamped with the "PAID" stamp which should bear the date of payment as recorded in the Cash Book.
- Do-
- Action should be taken in terms of relevant provisions of the Financial Regulations.
- (ii) Financial Regulation 431(3)
- A Register of Investment had not been maintained including particulars on the face value, cost price, amount realized by sale, and the resultant gain or loss and the date of receipt of investments costing Rs.2,165,818.
- Will be replied in future in this connection.
- A Register of Investments should be maintained in terms of Financial Regulations.
- (c) Sections 3.8, 3.14 and 10.4 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
- Interest should be charged on all loans except the festival advance and bank loans at 4.2 per cent and should be recovered monthly. However, interest on loans amounting to Rs.4,745,666 granted to officers in the preceding year and the year under review had not been recovered by the Regulatory Council. Further, before any loan is granted, an agreement had not been entered into on the Form General 272. Moreover, loans amounting to Rs.2,771,666 had been granted with sureties who haven't a prescribed service period.
- The Regulatory Council had decided to grant a loan equivalent to the 10 months salary by considering requests made by employees and the said decision has been approved at the Management Committee and the Monthly General Meeting and it is expected to charge an interest thereon.
- Action should be taken in terms of provisions of the Establishments Code. Disciplinary action should be taken against responsible officers who take action contrary to that.

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| (d) | Treasury Circular No.842 of 10 December 1978 | A Fixed Assets Register had not been maintained for fixed assets costing Rs.2,120,031 as at 31 December 2019. | A new methodology is due to be introduced by the year 2021. | A Fixed Assets Register should be prepared and maintained in an updated manner. |
| (e) | Public Administration Circulars No. 10/2006 of 06 June 2006 and No. 24/2007 of 01 November 2007 | Sums of Rs.211,550 and Rs.210,262 had been paid without paying attention towards the cancellation of the Circular No.10/2006 by the Circular No.24/2007 in the year under review and the year 2020 respectively in lieu of leave which are not availed by officers. | As per the decision reached by the Regulatory Council, payment of an allowance in lieu of leave had been made with the objective of encouraging employees and enhancing their arrival due to the limited cadre. | -do- |
| (f) | Budget Circular No. 133 (1) of 09 March 2007 and Public Administration Circular No. 30/2008 of 31 December 2008 | In terms of circular provisions, the amount of maximum distress loan entitled to an officer has been limited to Rs.250,000. Nevertheless, distress loans amounting to Rs.1,756,666 had been granted to 09 officers in the preceding year and the year under review exceeding the said limit. | The Regulatory Council had decided to grant a loan equivalent to the 10 months salary by considering requests made by employees and the said decision has been approved at the Management Committee and the Monthly General Meeting and it is expected to charge an interest thereon. | Action should be taken in terms of circular provisions. Disciplinary action should be taken against responsible officers who take action contrary to that. |

- (g) Public Enterprises Circulars No. PED/03/2018 of 07 December 2018 and No. PED/03/2019 of 09 December 2019
- In terms of circular provisions, there was no possibility of payment of bonus for the years 2018 and 2019. However, bonus of Rs.445,500 had been paid for the said two years contrary to said circular instructions. In addition to that, a sum of Rs.292,200 had been paid in the year under review as festival bonus without obtaining proper approval.
- Even though allowances and privileges provided to employees are at a low level, when comparing with other institutions, the performance of the Regulatory Council is at a high level. As such, the Regulatory Council has decided to grant the festival bonus.
- Action should be taken in terms of circular provisions. Disciplinary action should be taken against responsible officers who take action contrary to that.

2. Financial Review

2.1 Financial Results

Operations for the year under review had been a deficit of Rs.3.28 million and the corresponding deficit for the preceding year had been Rs.6.17 million, thus observing an improvement of Rs.2.89 million in the financial result. The decrease in expenditure of the year under review by Rs.3.78 million had been the main reason for the said improvement.

3. Operating Review

3.1 Performance

Audit Observation	Comments of the Management	Recommendation
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(a) In terms of provisions of Sub-section 2(1) of the Private Medical Institutions (Registration) Act, No. 21 of 2006, all private medical institutions should be registered. According to information made available to Audit, 3,515 private medical institutions had been established in 09 provinces. However, the number of private medical institutions registered in the Regulatory Council as at 31	A significant number of medical institutions have been registered in the years 2007 and 2008 and subsequently, registration of medical institutions had gradually decreased. However, a rapid increase in the registration can be	Action should be taken to register all private medical institutions established island wide.

December 2019 stood only at 1,888. However, it was observed that the Regulatory Council had not prepared a formal procedure to identify the number of private medical institutions to be registered and to register them and to implement provisions in Section 4 of the Act in respect of private medical institutions operated without being registered.

seen from the year 2013 up to now. A census on medical institutions is carried out to cover the whole island in consultation with and participation of Provincial Health Authorities and action is taken to register the private medical institutions considering the recommendation given after evaluation of proper standards by the Director of Health Services and a Board of qualified Officers in each Province, in an updated manner annually.

- (b) In terms of Section 9 of the said Act, the Council had failed even by the end of the year under review to develop and monitor standards to be maintained by the registered private medical institutions; to implement a 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 prepare and implement a proper method to ensure the quality of patient care services rendered or provided by such private medical institutions.

That action is taken to register private medical institutions and to update annually considering the recommendation made after evaluation of standards by the Director of Health Services and a Board of qualified Officers in each Province and approval is granted for the registration after evaluation of proper standards by the Committee appointed for evaluation of applications for registration, by the Regulatory Council. Moreover, it has been proposed to commence a census

As activities could not be completed in terms of Section 9 of the Act, action should be taken to convert guidelines into regulations by paying special attention towards thereon.

for evaluation of the skill of the employment of all employees engaged in the service in collaboration with the Tertiary & Vocational Education

Commission so as to cover every private medical institution and it is expected to commence the said programme expeditiously.

- (c) In terms of Section 13(1) of the aforesaid Act, the Minister had not taken action to properly formulate and enforce schemes of accreditation for private medical institutions, on the advice of the Council, by Order published in the Gazette.
- A proper methodology has been prepared for achievement of objectives in establishment of the Regulatory Council, guidelines necessary for the registration of private medical institutions have been formulated including minimum qualifications and standards and forwarded to the Legal Draftsman's Department through the Legal Division of the Ministry of Health to be converted into regulations.
- Action should be taken to properly formulate and enforce schemes of accreditation for private medical institutions.
- (d) In terms of Sub-section 18(2) (g) of the aforesaid Act, action had not been taken to formulate Orders 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.
- Public issues against private medical institutions could be submitted and proper guidelines in taking action therefor, have been formulated.
- Action should be taken to formulate Orders relating to the procedure or practice to be followed in entertaining any complaint and the final disposal thereof.

3.2 Management Inefficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) Cabinet approval had been received on 09 July 2015 for revision of Section 3(5) of the Private Medical Institutions (Registration) Act, No.21 of 2006 including provisions that the Provincial Director of Health Services shall submit an annual proposal along with the annual budget estimate relating to development of the private health sector, before providing 50 per centum of the revenue collected from annual registration fees by the Regulatory Council, to Provincial Chief Secretaries and that a report should be submitted on the expenses and activities as at the end of the year. Even though 04 years had elapsed after receiving Cabinet approval, the Act had not been revised.</p>	<p>Out of registration fees relating to private medical institutions, 50 per cent had been paid to the relevant Provincial Council up to the year 2011, taking a decision at the meeting, chaired by the Minister of Health on 11 February 2011, that monies should be paid only when a separate account is maintained for Provincial Councils and after an annual plan is submitted at the commencement of the year. Moreover, it had been also decided that a progress report on expending of monies received, should be properly forwarded to the Regulatory Council and that this decision had been approved by the monthly summit of the Private Health Services Regulatory Council on 11 March 2011.</p>	<p>Action should be taken to expedite the revision of Section 3(5) of the Private Medical Institutions (Registration) Act, No.21 of 2006 as per the Cabinet approval received on 09 July 2015.</p>
<p>(b) In terms of Section 3(5) of the aforesaid Act, 50 per cent of the revenue collected from annual registration fees, should be sent to each Provincial Council. However, the Regulatory Council had remitted 50 per cent of the revenue from registration fees to the Provincial Directors of Health Services instead of remitting to Provincial Chief Secretaries to be credited to Provincial Council Fund. As such, a sum of Rs.8,193,874 remitted to Provincial Directors of Health Services during the year under review, had not been credited to each Provincial Council Fund. The sum not remitted as such, as at 31 December 2019, was Rs.28,306,439.</p>	<p>-do-</p>	<p>Fifty per cent of the revenue from registration fees payable to the Provincial Council by the Regulatory Council should be credited to the Provincial Council Fund. Payment of salaries to employees of the Provincial Council should be discontinued therefor.</p>

- (c) No provision whatsoever had been made in the Act for incurring of expenditure in Provincial Councils. However, the Regulatory Council had paid a sum of Rs. 2,950,795 as telephone allowances, transport expenses, and salaries of officers attached to the Office of the Western Provincial Director of Health Services in the preceding year and the year under review. The said amount had been deducted from the revenue from registration fees payable to the Western Provincial Council in terms of Section 3(5) of the aforesaid Act.
- The Medical Officer recruited on contract basis, attached to the Office of the Western Provincial Director of Health Services takes action for inspection of all medical institutions within the Province, investigation of complaints, observation and to notify the Office of the Provincial Director of Health Services of institutions violating prescribed standards and proper measures, and to take appropriate action thereon. As such, the salary of the said Medical Officer is paid out of the 50 per cent payable to the said Provincial Council. -do-
- (d) Authority for training of employees of private medical institutions had not been delegated to the Regulatory Council by the aforesaid Act. However, a Memorandum of Understanding had been entered into on 30 May 2014 with the Association of Private Hospitals and Nursing Homes and the National Apprentice and Industrial Training Authority for a five year period, for implementing a training programme as Refresher Gap Filling Course for Nursing Officers employed in private hospitals. The Regulatory Council had spent a sum of Rs.2,424,698 in the year under review for that programme.
- The Regulatory Council carries out supervision of qualifications of employees (specifically in medical staff), serving in private medical institutions, implements nurses' training courses, dental surgery training courses according to a proper methodology together with the National Apprentice and Industrial Training Authority and the confirmation of quality of services offered by private medical institutions through continuous maintenance of these activities in a proper manner. Expenditure should be incurred only for purposes for which authority had been delegated by the Act.
- (e) Nine meetings of the Board of Governors had been held during the year under review and the average participation of the members of the Board of Governors comprising 28, was about 58 per cent. The member appointed for representing the Legal Division had not participated in any meeting while the Management representative had participated in only one meeting. Two other members had participated in only 02 sessions while the Chairman had participated in only 03 sessions.
- A data report on the attendance of members of the Council during the year under review is forwarded every year to the Minister in charge of the subject. The participation of members in meetings of the Board of Governors should be improved.

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| <p>(f) In addition to the Board of Governors appointed in terms of Section 6(1) of the aforesaid Act, an Office Management Committee comprising 10 members, had been appointed and 10 sessions of the said Committee had been held in the year under review. Only three persons each had participated in 5 meetings out of those and 4 members each had participated in the remaining 5 meetings. Moreover, an allowance of Rs.5,000 had been paid without proper approval for each session to members who participated in the said meetings.</p> | <p>Approval had been received at the management committee meeting held on 12 July 2018 and the monthly conference held on 10 August 2018, for increasing the sitting allowance paid for participation in members' meetings of the Regulatory Council.</p> | <p>Action should be taken in terms of provisions in the Act. Allowances paid without proper approval should be recovered.</p> |
| <p>(g) Erection of notice boards to display registration of private medical institutions registered under the Regulatory Council is not a function of the Regulatory Council. However, a sum of Rs.14,655,685 had been spent by the Regulatory Council for erection of new notice boards and to refill the old notice boards of private medical institutions during 9 years from the year 2011 to the year under review.</p> | <p>Erection of new notice boards and refilling of old notice boards are carried out according to a decision of the Regulatory Council.</p> | <p>Expenditure should be incurred only for purposes for which authority had been delegated by the Act.</p> |

3.3 Staff Administration

Audit Observation	Comments of the Management	Recommendation
<p>Action had not been taken to approve and recruit the staff in an appropriate manner by identifying the role and extent of the Regulatory Council from the year of commencement of the Council. Moreover, 10 officers had been recruited for posts by the end of the year under review without approval of the Department of Management Services.</p>	<p>A new scheme of recruitment has been formulated by identifying the role of the institution, in an appropriate manner. However, approval of the Department of Management Services has not been obtained due to a policy decision taken by the Council.</p>	<p>Action should be taken to approve the staff and to make recruitments accordingly.</p>

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) A Procurement Plan had not been prepared for the year under review.	A Procurement Plan was not available and action will be taken to prepare it presently.	Action should be taken in terms of provisions in the Government Procurement Guidelines.
(b) In terms of Guideline 3.6.1 of the Government Procurement Guidelines, repeat orders for the Procurement of Goods may be authorized up to a limit of fifty percent (50 %) of the original contract value, provided that not more than a six month period has lapsed from the date of award of the original contract. However, contrary to that, a sum of Rs.1,141,400 had been spent for refilling of 1,268 notice boards of various sizes by a repeat order from the said supplier without calling for bids again in 08 instances during the year under review based on quotations received on 07 June 2012.	Quotations are constantly called from several suppliers for all purchases and a supplier is selected after evaluation of quotations at the management committee meeting. A suitable supplier is selected after submitting a report thereon at the monthly committee meeting of the Institute.	-do-

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and provisions in Treasury Circular No.01/2004 of 24 February 2004, annual financial statements of statutory boards should be furnished to the Auditor General within 60 days after the closure of the year of accounts. However, financial statements relating to the year under review had been furnished to Audit only on 25 September 2010, with a delay of 205 days.	Even though financial statements had been prepared, monthly committees and sub-committee meetings scheduled to be held were suspended due to COVID 19. As such, approval of the monthly conference could not be obtained and as a result, it was delayed.	Financial statements should be duly prepared and submitted to Audit.

4.2 Audit and Management Committee

Audit Observation	Comments of the Management	Recommendation
According to Management Audit Circular Nos. DMA/2009 (1) of 09 June 2009, DMA/2009(1)(i) of 28 January 2016 and DMA/1-2019 of 12 January 2019, four audit and management committee meetings should be held, 01 each per quarter. However, no audit and management committee meetings had been held in the year under review by the Regulatory Council.	According to the approval of the monthly conference held on 11 November 2020, a committee has been established as the Management and Audit Committee to discuss on matters relating to audit.	According to the Management Audit Circular, a committee with the proper composition should be established and committee meetings held duly.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
The Regulatory Council was not aware of the circular No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policy and Economic Affairs and the “Year 2030 Agenda” of the United Nations on sustainable development goals. As such, action had not been taken to identify sustainable development goals relating to functions coming under the scope thereof, targets and focal points in achieving those targets and indicators for measuring the achievement of the said targets.	Action is expected to be taken by looking into this matter.	Action should be taken by the Regulatory Council to identify sustainable development goals relating to functions coming under the scope thereof, targets and focal points in achieving those targets and indicators for measuring the achievement of the said targets.