

Cost Audit of

Hospital

6th November, 2016



Background - Cost Records

- As per Companies (Cost Records and Audit) Rules, 2014 & Amendment thereto:
- Any company engaged in “Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories” are required to maintain cost records: &
- having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year

Needs to maintain prescribe cost records in accordance with Form CRA 1 of the Rules to the extent applicable

Exemption

As per FAQ2 of 8th July, 2015:

- companies running hospitals exclusively for its own employees are **excluded** from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules.
- It is clarified that companies engaged in running of Beauty parlours / beauty treatment are not covered under these Rules.
- There is no exemption for Companies registered under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) and One Person Company. Hence “not for profit” companies in healthcare also covered.

Background - Cost Audit

- They need to get cost records audited in accordance with these rules if:
- The overall annual turnover of the company from all its products and services during the immediately preceding FY is **Rs. 100 cr** or more; and
- The aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is **Rs. 35 crore** or more.
- Appoint Cost Auditor and file Form CRA2
- Cost auditor needs to submit Report to Company within 180 days of year-end
- The Report needs to be approved by Board of Directors
- Company needs to file CAR within 30 days of receipt of Report from Cost Auditor

Major Issues

- Business Models
- Identify Revenue Streams
- Peculiar Expenses
- Other Issues

Business Models

Management / Ownership Models
Own & Operate
Lease & Operate
Operate on Revenue Share basis
Operate on Public Private Partnership basis
Operate on Management Fee basis

Business Models
Standalone Single Specialty or Multi Discipline Hospital
Multilocation Hospitals
Independent Pharmacy / OPD chain &/or In-House
For Profit / Not for Profit

Revenue Streams

Revenue from Operations
Income from medical and healthcare services
Sale of medical consumables and drugs
In Patient Services
Out Patient Services
Laboratory/Clinical Services
Income from Medical Services
Management Fees from Hospitals
Income from Clinical Research
Out Patient Pharmacy
Contact Lens & Optical

Revenue Streams

Other Operating Revenue
Learning and development income
Teleradiology income
Revenue share income
License fee & commission from licensees
Service charges received from doctors
Equipment Lease rentals
Sponsorship Income
Sale of Plasma

Peculiar Expenses

Main P & L
Purchase of medical consumables, drugs and surgical equipment
Changes in inventories of medical consumables, drugs and surgical equipment
Stores & Spares Consumed

Current Assets
Patient treatment in progress
Unbilled revenue

Peculiar Expenses

Notes to P & L	
Hospital Operating/ General/ Upkeep Expenses	Pathology Laboratory Expenses
Professional fees to doctors	Radiology Expenses
Patient Welfare Expenses	Consultation Fees to Doctors
Hospital Management Fees	Medical Services Expenses
Medical Gas Charges	Pharmacy Loyalty Discount
Biomedical Wastage Expenses	Continuing Medical Education & Hospitality Expenses
R & M to Hospital Equipment	Pharmacy Purchase
Consultation fees paid to doctors	Purchase of Contact Lens & Optical
Outside lab investigations	Canteen & Utility Purchase
Patient Food & Beverages	Camp Expenses

Other Issues

- Need to identify & exclude Underutilisation Expenses (EG: Wards, OT, Radiology, Lithotripsy, Dialysis)
- Reconcile issues and consumption between Pharmacy, Main Store & Sub Stores for Medicines & Consumables
- How to bifurcate Package Rates into components – Rs. 3 Lakh Bypass package will include OT charges, Surgeon's fee, Room charges, medicines, consumables, etc. Sum of parts based on rack rate is usually more than package cost.
- Special discounted rates for corporate/government employees, cheap/free land against commitment to treat certain patients at subsidised rates
- Changes in billing, based on Bed Type
- Patient billed at higher rate although allotted cheaper ward, as per industry practice

Other Issues

- How to present data in C1 – Capacity & Utilisation
- How many services to include in C2 – Cost Sheet
 - A typical bill includes several line items - Admission Charges, OT Fees, Anaesthetic, X Ray, Dressings, Visitors' Cot, CAT Scan, Ward Room, Surgical Supplies, Consumables, Pharmacy, Surgeon's Fee, Doctor's Fee, etc
 - Each of these do not constitute a separate service. Hence need to work out proper classification for grouping of services
 - Need to consolidate across locations
- How to present Expenses in C2 – “Industry Specific Expenses” is very useful

Other Issues

- How to value captive consumption?
Provision of service by one division to another – Diagnostic service to surgical patient.
- Pharmacy is Trading activity & hence not covered u/s148.
- Production, import and supply or trading of certain medical devices including Stents, Valves, Implants, are covered u/s 148. However, the hospitals take a stand that these are part of procedure and are consumed & hence these are not covered.
- Service Tax: Very few services covered – Aesthetic Surgery.

Thank You

kbhatia@kishorebhatia.com