

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
- Sample cost sheet with two optional methodologies given at the end of presentation

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

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	Name of manufactured product or service	Wards & ICU
Sr	Description	Total Cost
1	Cost of materials consumed	
	Consumables	33,333
	Pharmaceuticals	43,434
2	Cost of process materials or chemicals consumed	
3	Cost of utilities consumed	
	Power	555
4	Cost of direct employees	12,345
5	Cost of direct expenses	
6	Cost of stores and spares consumed (bedsheets, towels, etc)	40
7	Cost of repairs and maintenance	345
8	Cost of quality control	
9	Cost of research and development	
10	Cost of technical knowhow fee or royalty	
11	Cost of depreciation or amortization	4,444
12	Cost of other production overheads (hospital admin)	333
13	Cost of industry specific operating expenses	
	Wards Common Expenses	6,666
	Biomedical Waste	222
14	Total of inputs and conversion cost of product	1,01,717
15	Cost of increase/decrease in work-in-progress	-
16	Credits for recoveries	-
17	Cost of primary packing	-
18	Cost of production or operations/Total cost of service provided	1,01,717
19	Cost of finished goods purchased or Cost of outsourced or contractual services	
20	Total cost of production and purchases / Total cost of service available	1,01,717
21	Cost of increase/decrease in finished goods	
22	Cost of self or captive consumption	
23	Cost of other adjustments	
24	Cost of production or operations of goods or services sold / Cost of services sold	1,01,717
25	Cost of administrative overheads-Corporate	400
26	Cost of secondary packing	-
27	Cost of selling and distribution overheads	70
28	Cost of sales before Interest	1,02,187
29	Cost of interest and financing charges	20
30	Cost of sales of product or service	1,02,207
31	Net sales realization of product or service	2,00,000
32	Amount of margin as per cost accounts	97,793

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Sr	Description	Total Cost
1	Cost of materials consumed	
	Consumables	33,333
	Pharmaceuticals	43,434
2	Cost of process materials or chemicals consumed	
3	Cost of utilities consumed	
	Power	
4	Cost of direct employees	
5	Cost of direct expenses	
6	Cost of stores and spares consumed (bedsheets, towels, etc)	
7	Cost of repairs and maintenance	
8	Cost of quality control	
9	Cost of research and development	
10	Cost of technical knowhow fee or royalty	
11	Cost of depreciation or amortization	
12	Cost of other production overheads (hospital admin)	
13	Cost of industry specific operating expenses (each of these will comprise of salaries, repairs, depreciation, etc)	
	Multibed Wards	6,666
	Twin Sharing	7,777
	Single Bed	8,888
	Delux Rooms	9,999
	ICU	3,333
	ICCU	2,222
14	Total of inputs and conversion cost of product	1,15,652
15	Cost of increase/decrease in work-in-progress	-
16	Credits for recoveries	-
17	Cost of primary packing	-
18	Cost of production or operations/Total cost of service provided	1,15,652
19	Cost of finished goods purchased or Cost of outsourced or contractual services	
20	Total cost of production and purchases / Total cost of service available	1,15,652
21	Cost of increase/decrease in finished goods	
22	Cost of self or captive consumption	
23	Cost of other adjustments	
24	Cost of production or operations of goods or services sold / Cost of services sold	1,15,652
25	Cost of administrative overheads-Corporate	400
26	Cost of secondary packing	-
27	Cost of selling and distribution overheads	70
28	Cost of sales before Interest	1,16,122
29	Cost of interest and financing charges	20
30	Cost of sales of product or service	1,16,142
31	Net sales realization of product or service	1,20,000
32	Amount of margin as per cost accounts	3,858