

# MAINTENANCE OF COST RECORDS IN THE HEALTH CARE SECTOR IS OF PRIME IMPORTANCE



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*Financial Accountants who discussed standard costing during the Interwar decades rarely considered how managers could use variances between actual and standard costs to control manufacturing. Instead their main concern was how to properly classify variances and in particular how to dispose of them in published financial reports.*

*Robert Kaplan*

## My Dear Professional Colleagues,

### Cost Management of Healthcare Services

Harvard Business School professors Robert Kaplan and Michael Porter have admitted in their recent article that the proper goal for any health care delivery system is to improve the value delivered to patients. Value in health care is measured in terms of the patient outcomes achieved per rupee expended. It is not the number of different services provided or the volume of services delivered that matters but the value. More care and more expensive care is not necessarily better care.

The health care sector is growing at a 15 per cent compound annual growth rate (CAGR) and grew from US\$ 45 billion in 2008 to US\$ 78.6 billion in 2012 and is expected to touch US\$ 158.2 billion by 2017. India's per capita healthcare expenditure has increased at a CAGR of 10.3 per cent from US\$ 43.1 in 2008 to US\$ 57.9 in 2011

and is expected to rise to \$88.7 by 2015. The aging of populations and the development of new treatments are behind some of the increase. Reckless incentives and third-party payers reimburse for procedures performed rather than outcomes achieved, and patients bear little responsibility for the cost of the health care services they demand.

The most fundamental source of escalating costs is the system by which these costs are measured. There is a lack of understanding of how much it costs to deliver patient care, much less how those costs compare with the outcomes achieved. Instead of focusing on the costs of treating individual patients with specific medical conditions over their full cycle of care, providers aggregate and analyze costs at the specialty or service department level.

Poor costing systems have disastrous consequences. It is a well-known management principle that what is not measured cannot be managed or improved. Since providers misunderstand their costs, they are unable to link cost to process improvements or outcomes, preventing them from making systemic and sustainable cost reductions. Instead, providers turn to simplistic actions such as across-the-board cuts in expensive services, staff compensation, and head count. But imposing arbitrary spending limits on discrete components of care, or on specific line-item expense categories, achieves only marginal savings that often lead to higher total systems costs and poorer outcomes.

This has also led to huge cross-subsidies across services. Providers are generously reimbursed for some services and incur losses on others. These cross-subsidies introduce major distortions in the supply and efficiency of care. The inability to properly measure cost and compare cost with outcomes is at the root of the incentive problem in health care and has severely retarded the shift to more effective reimbursement approaches.

Finally, poor measurement of cost and outcomes also means that effective and efficient providers go unrewarded, while inefficient ones have little incentive to improve. Indeed, institutions may be penalized when the improvements they make in treatments and processes reduce the need for highly reimbursed services. Without proper measurement, the healthy dynamic of competition—in which the highest-value providers expand and prosper—breaks down. Instead we have zero-sum competition in which health care providers destroy value by focusing on highly reimbursed services, shifting costs to other entities, or pursuing piecemeal and ineffective line-item cost reductions. Current health care reform initiatives will exacerbate the situation by increasing access to an inefficient system without addressing the fundamental value problem: how to deliver improved outcomes at a lower total cost.

The healthcare services are now under the purview of Cost Records and the Ministry of Health and Family Welfare has taken initiatives to have a Standard Cost Template for smaller hospitals to large hospitals. With rising prices and increased competition, service companies are finding that knowing the costs of their products and services is vital to their health, if not to their existence. So the maintenance of Cost Records in the healthcare sector is of prime importance. The costing techniques can change the state of affairs of this sector. It simply requires a new way to accurately measure costs and compare them with outcomes.

### **Cost Rules 2014**

The Expert Committee on Cost Rules is expected to submit its report this month and we have submitted our representation and other clarifications sought for and are hopeful of a positive outcome. Our representation for postponement of the Cost Rules 2014 is under consideration of the Ministry and are following up with the Ministry for early concurrence on the matter.

### **Techno-Economic Viability (TEV) by an Independent Evaluation Committee (IEC)**

Reserve Bank of India vide its circular issued in February 2014 mandated that in respect of all borrowing arrangement exceeding Rs. 500 crores, an Independent Evaluation Committee (IEC) would carry out an evaluation of the Techno-Economic Viability (TEV) and the proposed restructuring package. RBI has also indicated that IEC should have members as institutions engaged in promotion of accounting, finance and industry professions, to ensure unbiased and objective evaluation in each case. The constitution of the IEC consisting of independent experts would be decided by Indian Banks' Association (IBA) in consultation with RBI. Our Institute will assist IBA and will make available the expert database of CMAs will be provided to them. For this purpose the Institute has already invited Expression of Interest from interested members of the Institute having adequate experience in dealing with the project evaluation of different sectors and are competent to carry out an evaluation of the Techno-Economic Viability (TEV).

### **MSME Sector Initiatives**

I am pleased to inform you that based on our discussions with the Chairman, State Bank of India, on evolving a system of cost efficiency monitoring as well as performance appraisal in select financially stressed key segments of the MSME sector, the bank has identified four centers from different regions having MSME Clusters, for doing a Pilot study by the Institute. We are expecting the data relating to these units shortly and based on the data we will move forward with the assignment. I hope this will open up fresh avenues to the members in the area of Performance Appraisal and Monitoring.

### **Training and Educational Facilities Services:**

I am happy to announce that some major policy decisions have been taken by the Council, on the recommendations of the Training and Educational Facilities Committee. I am encapsulating the same below:

- Revision of Policy and Procedures relating to CMA Support Centers;
- MoU with Universities for Ph.D and reciprocal subject

exemptions;

- Reaching the technology Institutions in order to bring in engineering students into the CMA fold;
- Spreading the CMA education access thru Post offices with a Pilot study in SIRC;
- Introduction of One Fee One Course concept to restructure the Coaching Policy;
- Provide extensive coaching support to postal students through webinars by Board of Studies to Reach the unreached;
- Introduction of Full time CMA Course with Pilot study shortly.

*To apprise all the members about the activities / initiatives undertaken by the Departments/ Directorates of the Institute, I now present a brief summary of the activities.*

### **Advanced Studies Directorate**

The second batch of IS audit and control will be launched from January 2015. Applications were received for the Diploma in Management Accountancy (Dip MA) examination to be conducted in the month of December 2014. The webinars in the three diplomas viz, Diploma in Business Valuation, Diploma in IS audit and Control and Diploma in Internal Audit are being conducted as per the schedule.

### **CAT Directorate**

CAT is not also far behind in terms of campus placement. The first campus placement exclusively for Rajasthan students is scheduled during the last week of October. To provide quality resource persons for CAT ASAP Program in Kerala 3 Training of Trainers Program were conducted in Kochi and Kozhikode. CMA TCA Srinivasa Prasad, CCM conducted the Program in Kozhikode and interacted with the faculty members. This is part of the ongoing initiative of the CAT Directorate to improve delivery model of CAT.

### **Continuing Professional Development Directorate**

The Institute organized a session on 'Role of CMAs in Compliances under Income Tax Act' on 10th October 2014 at New Delhi. The session was quite interactive and well received by the large number of CMAs. During the month, webinars were organized on 'Process Based Internal Audit' and 'Challenges of Cost Ascertainment in Process Industry viz. Petroleum Refining'.

I am happy to inform that during the month our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the topics of professional relevance such as on Management Accounting Perspective to Risk Management, Costing in Construction Industry, Service Tax-Issues and Problems, Overview on Recent development in Direct Taxation, Productivity Enhancement - CMA as Catalyst, Transfer Pricing under Income Tax ACT, 1961, Forensic Audit, Stock Audit in Banks - Role of CMAs, The Companies Act 2013 & Emerging Role of CMAs, Stochastic Processes and Applications to Mathematical Finance, Contractual Practices in Construction Industry, Corporate Restructuring, Workshop on Service Tax Returns, Tax Audit Reports and its Co-Relation with Cost Records, Tax Audit under Income Tax Recent Development, Joint Ventures, E-filing of Income Tax Returns for Salaried Class - Precautions to be taken, Strategy through Cost Management, Indirect Taxation - Impact of Finance Bill 2014, and so on.

I will be failing in my duty if I do not point out the good work done by SIRC Team in organizing maximum no. of programs for the past three months. Apart from the regular PD Meetings, they have also taken the step of reaching out to different states in the Region by organizing State Level CMA Conclaves, in each state, which will be culminating in the Regional Conference to be held at Trivandrum on 19th and 20th Dec 2014. Initiatives like this will go a long way in reaching out to the public as well as serve as a tool for highlighting the role CMAs can play in service to the public at large. I also understand that good number of public representatives have been invited as Guests of Honour for these programs, which will also provide recognition for our profession in the Government initiatives.

### ICWAI MARF Program

The 'Certified Accountant Program' was organized exclusively for Mahindra Finance Academy during 07-11 October, 2014 at Mumbai which was attended by different officers of Mahindra & Mahindra. The 12 Weeks Specialized Certificate Course on 'Finance, Accounting, Costing, Project and Contract Management' has been organized for Indian Navy from 13th October, 2014 at CMA Bhawan, New Delhi. The program on 'Service Tax-Issues and Problems' was organized during 14-17 October, 2014 at Goa which was attended by senior officers from different organizations.

### International Affairs Department

Institute of Directors, India organized 14th London Global Convention on Corporate Governance and Sustainability during October 28-31, 2014 at London on the theme "Boards to Lead: Effective Corporate Governance & Sustainability" and also presented Golden Peacock Awards. On invitation of IOD, I attended the convention as a panelist for one of the Technical Session. The convention was inaugurated by Ms. Nirmala Sitharaman, Hon'ble Minister of State for Commerce and Industry, Corporate Affairs and Finance.

The Institute of Chartered Accountants of India organized the SAFA events and IFAC-SAFA SMP Forum at New Delhi during 9-11 October at New Delhi. The Institute's representatives attended the events and a session on the forum was taken by CMA Dr. S.C. Mohanty, Immediate Past President of the Institute.

Institute is organizing next SAFA events at Bhubaneswar, Odisha on 4th December 2014. Apart from SAFA Board meeting, there will be an International Seminar on Integrated Reporting. The SAFA Best Presented Annual Report Awards & SAARC Anniversary Awards for Corporate Governance Disclosures Ceremony 2013 will also be organized in the evening on 4th December 2014 at the same venue.

The next IFAC Council Meeting is scheduled on 7th November 2014 at Rome. The next CAPA events are also scheduled at Rome on 8-9 November 2014. IFAC is also organizing the World Congress of Accountants (WCOA) at Rome during 10-13 November 2014. The events will be represented by the Institute.

### Membership Department

In my previous communiqué, I had mentioned about the benefits of online facilities being offered to the members for making things easier and simpler for them. The launching of 'E-Services' for members is a step in this direction. I am pleased to share with you that the application process for Members Benevolent Fund has been made

online (with offline facility still in existence) whereby our members can apply for the membership of the Members Benevolent Fund by a simple click of the mouse and become members of the said Fund. Members are requested to make increasing use of online facilities which would go a long way in saving their valuable time and efforts.

### Placement Directorate

I am happy to share that the first round of campus placement for June 2014 final qualified is just complete and around 130 students have been placed. The highlight of the current placement has been participation by diversified employers - manufacturing, IT, Consultancy and E-commerce showing wide acceptance of CMAs by different sectors. The Institute could attract new corporates like Flipkart, Honeywell, Michelin for the campus placement program. The campus placement for June 14 qualified will continue and I am sure that maximum number of companies would find their future managers from CMAs.

### Professional Development Directorate

The Institute endeavors to bring out Sector Specific Guidance Notes on Internal Audit in view of empowerment of cost accountants vide Section 138(1) of the Companies Act 2013 for internal audit of class of companies for the purpose of Capacity Building of the members. Towards this endeavor the Institute has already published two Guidance Notes on Internal Audit for Pharmaceutical Industry and Stock Brokers & Depository Participants. Three Guidance Notes on Internal Audit for Power, Telecommunication and Mining & Metallurgical Industries have already been exposed to public and the Institute will release the final version of these Guidance Notes shortly.

The directorate has also been taking up the matter of inclusion of CMA qualification in the recruitment criteria with various public and private sector organisations. As a result, many organizations have modified their criteria and included the CMA qualification in prescribed qualification. The directorate will continue to make representations in this regard.

Further, Professional Development Committee of the Institute has approved two more Exposure Draft Guidance Notes on Internal Audit of Engineering and Plantation Industries, which are available on the Institute website and Professional Development portal of the Institute. Members are requested to offer their view/ comments/ suggestions on these exposure drafts within stipulated time as notified on the Institute's website.

I wish prosperity and happiness to members, students and their family on the occasion of Kartik Poonmima.

With warm regards,



(CMA Dr A S Durga Prasad)  
3rd November 2014