

# ACCOUNTING AND INTERNAL AUDITING IN THE PRIVATE NURSING UNITS

## THE EXAMPLE OF GREEK PRIVATE HOSPITALS

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### **G**ENERAL

According to the latest definition of the Institute of Internal Auditors, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute for Internal Auditors, 1999). The private nursing units are particular organisms of benefit of services of health, in which the three rungs of care can be provided (first degree, secondary and third degree). Nursing units however present important particularities in their organisation, administration and operation. In the present article we will deal with the existence of internal auditing in the private nursing units, examining the sectors of their activity, in which it can help and also we will present the process for the organization of an internal auditing department in the nursing unit.

### Accounting in the private hospitals

The explicit segregation of duties during the realization of transactions, the effectiveness and efficiency of operations and the reliability of financial reporting are essential matters for modern hospitals and for the purposes of internal auditing (Mpallis, 1998, Panagiotidis, 1995, Kantzos, 1995, Meigs, 1984, Aisiopoulos, 1980). The flow chart of the accounting department of a hospital not only should ensure the determination of job allocation inside this department but also should promote the automatic control of accounting transactions. The rejection of fraudulent transactions is the major target. National accounting standards exist in Greece and all accounting departments of private hospitals must follow them. All national accounting standards are summarized in a systematic way in a table, known as Greek General Accounting Plan.

### Internal Auditing in the Private Hospitals

#### Description of Existing Situation

The private hospitals possess in Greece an important share of the sector of hospital care and daily a continuously bigger number of patients are turning to the services of the private sector. The elements that describe the current situation of private hospitals and which relate to internal auditing are presented as follows:

- a) **The administration of private hospitals is composed mainly from doctors** – Most private nursing units have doctors on the top of their hierarchy. These doctors have little knowledge of administration and organization of health services and this fact creates a number of problems and impedes the more efficient operation of private hospitals.
- b) **Necessity of restriction of cost of provided services** – The keen competition that has been observed during the last years among the private nursing units makes the restriction of cost of provided services as one of the major business targets. The meeting of this target will ensure cheaper health services and

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the improvement of economic results, and it will have positive results in the issuing of the shares of the nursing unit in the stock exchange market.

- c) **Obligatory operation of internal auditing department for all the companies of the Athens Stock Exchange** – Provided that private hospitals and any company which wishes to draw capital for the financing of their investments from the stock exchange market are imposed with the new regulation of the Committee of Capital market, that is in effect as of September 2000, to operate an independent internal auditing department, that will aim in the continuous follow-up of their operation and, will have the responsibility to inform in writing, in regular time intervals, the administrative council on the observation of commencement of virtuous management and the application of the regulation of the internal operation of company.
- d) **The rapid growth and complexity of basic operations of modern hospitals** – The growth of modern enterprising units as a consequence of various factors (technology, growth of new enterprising sectors, increased consuming needs, world economic development, increase of population e.t.c.) has caused various problems in the administration of these, in their effort to check and direct an organism, that is permanently extended and acquiring complexity.
- e) **The globalization of markets and the dissemination of activities in wider geographically regions** – The globalization of markets and the existence of various appealing enterprising occasions led the enterprises to expand their activities to other regions. This fact consequently increases their enterprising risk and the need of revision and extension of their enterprising policy with the smaller cost.
- f) **The wave of acquisitions and mergers in the private sector of health** – In the modern enterprising environment the effort of enterprises to achieve economies of scale aiming at the reduction of their operational cost and to extend their productive activity with the acquisition of other enterprising units similar or even different activity have led to an important wave of acquisitions and mergers. Following this fact we can observe important changes in the structure of involved enterprises.
- g) **The rapid growth of technology** – The development and growth in possession and also the use of technology in the daily practice has as a result the appearance of important changes in the environment of private clinics. This fact has also caused the rapid growth of volume of transactions, the growth of new forms of enterprising action and new services of health. The clinics face henceforth new challenges and new dangers that till yesterday were unknown.
- h) **The complexity of the tax and accountant obligations** – The private clinics face, as all the S.A. companies, various and complicated tax and accountant obligations. The accounting books must conform to the tax laws of State and the accountant rules, according to the Greek accounting standards. Besides the tax authorities continuously audit the private clinics because the doctors that are characterized by high rates of tax evasion are working in them. All these elements impose in the private clinics to observe their accountant books, with bigger assiduity on the reject of fines that would impend their economic place and would affect their prestige in the society.
- i) **The tendency for decentralizing administration** – Most companies have realized that the model of centralized administration, that to a large extent was applied in the past, led to declining output of their operational activities and for this target they have adopted the model of decentralizing administration, which designates that the enterprising policy flows from the top in the base of organizational structure, with parallel control from the immediately higher hierarchy level.
- j) **The investment of important capitals in the sector of equipment of high technology** – The investment in equipment of high technology is one from the more essential elements that has continuously led in the last years more and more persons to the private hospitals. The acquisition of precise instruments of high technology guarantees people their continuous operation.

- k) ***Necessity of restriction of errors in the debit of provided services of health of patients*** – The private hospitals are private units that aim for profit. The guarantee of fairness of the debit of accounts of patients limits their loss of income and safeguards their prestige in the cases of controls from tax beginning, actuarial funds, private actuarial companies and their patients.
- l) ***The absence of models of guarantee of quality of care*** – In most private clinics is absent the ISO certification of processes of care of patients though worldwide has been recognized its contribution in the increase of quality of provided services of health.

### **The Contribution of Internal Auditing in the Private Hospitals**

In Greece minimal private hospitals have founded departments of internal auditing. Among these they are included the maternity clinic “Leto”, the maternity clinic “Iaso”, the private hospital “Hygeia” e.t.c.. Indubitably the follow-up of system of internal control in the private hospitals by specialized departments of internal auditing, can contribute to the improvement of operation of private hospitals in the following sectors:

- a) ***Guarantee of reliability and effectiveness of accountant system of checked unit in the measurement and presentation of financing sizes and results*** – For the achievement of this aim the internal auditors can proceed in the realization of financing controls. These controls can contribute to:
- ***The conformity of the personnel of the accounting department to the established accounting standards*** – The existence of accounting standards does not ensure the conformity of personnel to them. The internal auditors with the realization of relative tests can audit the degree of conformity of the accounting department’s personnel.
  - ***Confirmation of honesty and precision of accounting data*** – The accounting data, which come out of the computer system and are used by the administration, should be, as much as possible, complete and precise. Internal auditors can audit the administration for the precision of elements, holding relative controls on the accounting processes. With this auditing method it is confirmed that all the transactions will have been fully recorded, the accounting registrations will be portraying the total of transactions and that the accounting balances of accounts will be correct.
  - ***Confirmation that the collection and recording of accounting data are recorded according to the accounting standards*** – Internal auditors can audit that the accounting data are recorded according to the accounting standards which is also an essential condition for the benefit of white certificate from the Chattered Accountants.
  - ***The safety keeping of the assets of the company*** – During the financial audits the internal auditors can audit that the transactions on the assets of enterprise are held by suitably permitted individuals, are accompanied by complete receipts, that justify the change of their situation and the established processes do not allow the loss of the fortune of enterprise. In the cases of private hospitals the loss of medical equipment, can except the economic consequences of loss, have also unpleasant repercussions on the benefit of hospital care of patients.
- b) ***Assessment of degree of conformity of personnel in the existing operational processes and policies and localization of operational regions, that is characterized by inefficiency and in productivity*** – For the achievement of this target internal auditors can proceed in the realization of operational audits which can contribute to the achievement of:
- ***The conformity of personnel to the established operational processes, systems and policies*** – Internal auditors can reveal the degree of conformity of personnel to the established operational processes, systems and policies and inform relatively the administration of clinic for the results, proposing parallel the taking of direct measures and the realization of necessary corrective movements. Internal auditors besides can determine the reliability of elements, which are provided in the administration, but also in the personnel output and can propose proposals for improvement. Finally internal auditors can reveal regions of operational activity that function with low efficiency

and errors of personnel that slip from the administration, with important financial profits for the clinic.

- *Evaluation of cost efficiency of departments and operational processes* – As we saw in the previous paragraph in the frames of the acute competition that it is observed in the last years between private nursing units the restriction of cost of provided services it is the essential condition for the benefit of cheaper services of health and the improvement of results of the economic situation of hospitals. Internal auditors can propose solutions for the restriction of cost of productive process.
  - *Evaluation of efficiency of departments and operational systems* – Internal auditors can examine how much the individual departments of clinic manage their available resources in an economic and rational way and submit relative conclusions to the administration for the reception of corrective energies, in the areas where they judge, that there does not exist efficient management of available resources.
- c) ***Contribution of internal auditors in acquisitions and mergers of clinics*** – The departments of internal auditing offer important services for particular activities, after having knowledge of operational processes of the enterprises under merger, they can help in the examination of processes of new enterprising units proposing more rational methods of integration of these in the new organization that is created.
- d) ***Contribution of internal auditors in the geographic spread of private hospitals*** – Internal auditors can make audits in all companies, Pan-Hellenic and worldwide, that a private clinic possess. In this way they can provide in the administration of a company. Also they transport the corporate vision and the relevant operational processes in all the companies of the group, contributing considerably to the guarantee of homogeneity of operational processes.
- e) ***Revelation of irregularities of personnel of clinic*** – In the private clinics incidents of fraud actions are not absent and the presence of internal auditors, is essential for the revelation of such incidents and the reference of persons in charge to the administration, for the taking of suitable measures.
- f) ***Guarantee of fairness debit of patients accounts*** – The audit of clinic's price list in combination with the spot check of accounts of patients, can ensure the *fairness* debit of services, can limit the loss of income of clinic and can safeguard clinic's prestige in the cases of controls from tax authorities, actuarial funds, private actuarial companies and the patients.
- g) ***Qualifier hospital care of patients*** – Internal auditors can contribute in the qualifier hospital care of patients, suggesting the creation of a handbook of recording of nursing processes, that should get followed during the care of these, or helping in the creation and maintenance of a system of guarantee of quality of services of care, according to the international models of ISO certification.
- h) ***Guarantee of conformity to the directive of Committee of Capital market*** – The presence of an organized department of internal auditing, ensures that private clinics conform to the relative directive of Committee of Capital market (all companies should have an independent internal auditing department) and allows them to draw capital for the financing of their investments from the stock exchange market.
- i) ***Education of personnel on issues processes*** – Internal auditors undertake important educational role in the private hospitals and can guide the personnel in the observation of established processes and solve any query for the rejection of misapprehensions.
- j) ***Advisory services in the administration*** – The advisory role of internal auditors is particularly important for private hospitals. Internal auditors have acquired overall opinion of the hospital in which they work; they can offer important help in the administration in various operational subjects. As we still do not forget that most administrations of private hospitals have little knowledge of administration and organization of health services and need trusted individuals that know the hospital, in order to guide them in the process of making important economic decisions.

## The organization of internal auditing department in the nursing unit

The organization of internal auditing department in a Greek private nursing unit is quite difficult enough work. The reasons of this difficulty are precisely the following:

- The ignorance in Greece of the contribution of the internal auditing departments towards the increase of value and the improvement of operational enterprise.
- Unfavorable impression of the personnel about the internal auditor and the opinion of more, that internal auditor is the policeman of the enterprise.
- Mainly doctors practice the administration of hospitals; unfortunately they lack basic knowledge of administration and organization of services of health and they generally believe that internal auditing is a supporting activity, and it cannot add value to the enterprise.

Of course from the moment where it is decided that the foundation of an internal auditing department in the hospital the administration should at first stage, undertake certain actions for the support, crewing and his beginning of operation. The actions that should be taken for this aim ought to be followed are in line with the following:

- **Administration should first determine the role and the job of internal auditors** – For the effective operation of the department of internal auditing, the role of internal auditing should be determined. The department of internal auditing should have a written chapter from the administration in order to realize smoothly and independently its auditing work. Also the administration of hospital should inform the remaining executives and the personnel its explicit support in the department of internal auditing and in the work that it carries out, demanding the collaboration and co-operation of all.
- **Placement of the department of internal auditing in the flow chart of a hospital** – The placement of the department of internal auditing in the corporate flow chart is particularly important work and is related with the guarantee of its independence, that is vastly needed for the realization of work. Furthermore the flow chart will determine as to whom internal auditor should send the audit reports with his auditing findings. For the placement of department of internal auditing in the corporate flow chart the company should take into consideration two matters: Firstly that the department of internal auditing should be independent from all the departments of enterprise, the executives and personnel, of them in order that it carries out with objectivity and independence the auditing work and secondly that the department of internal auditing helps the administration and should report immediately and directly the auditing findings. Also the administration must have the knowledge and the time to evaluate the auditing findings and the proposals of internal auditors, and should not place these reports in drawers, without suitable actions.
- **Stuffing of department** – The stuffing of department of internal auditing differs depending on the size and the geographic spread of clinic. The department of internal auditing of hospital includes the director and the personnel of department, that should be individuals with experience in internal auditing, particular knowledge in the organization and administration of services of health, faculties and critical spirit and natural honesty and integrity. The geographic distribution of installations of hospital, the size of company, the complexity and the volume of transactions and the expectations of the administration from a department of internal auditing (if e.g. the management wishes simply a posteriori repetition of work of accountant circuit, aiming at the verification of right handlings or if it wishes the operation of internal auditors as advisers) are certain factors, that can influence the stuffing, qualitatively and quantitatively, of the department.

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