

Institute of Indigenous Medicine – 2017

The audit of financial statements of the Institute of Indigenous Medicine Affiliated to the University of Colombo for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Sub-section 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the presentation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institution’s preparation and fair presentation of the financial statements 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 Institution’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Section 111 of the Universities Act, No.16 of 1978 gives discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Indigenous Medicine Affiliated to the University of Colombo as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Due to not furnishing of Property, Plant and Equipment valued at Rs.2,491,050 for revaluation in revaluing of Property, Plant and Equipment, those Property, Plant and Equipment had not been revalued and hence non-current assets had been accounted less by that value.
- (b) Even though the value of acquisition of buildings had been stated as Rs. 23,652,348 in the financial statements, acquisitions in the current year amounted to Rs.23,405,904 as per the Building Account. Accordingly acquisitions in the year under review had been over stated by Rs.246,444.
- (c) As per the depreciation policy of the institute, even though 20 per cent per year should be depreciated for the Semi-Permanent Lecture Halls, the depreciation of the year had been understated by Rs.681,000 due to the depreciations made at a rate of 5 per cent in the year under review.
- (d) Even though, provision for depreciation for the buildings acquired in the year under review should be Rs. 52,033, depreciation of the year had been understated by Rs. 45,543 due to being accounted as Rs.6,490.

- (e) As per the board paper No.426/4051 of 08 September 2017 with the subject of “Properly Removal of Unused Library Books from the Collection”, actions had not been taken to identify the cost of 690 books such as removal of library books, free distribution, selling and issued to the libraries of other departments and to and remove from the accounts.

2.2.2 Unexplained Differences

The following observations are made.

- (a) Even though the advance book balance amounted to Rs.3,840,830 at the end of the year under review as per the financial statements, that balance amounted to Rs.4,026,081 as per the advanced register and hence a difference of Rs.185,251 was observed.
- (b) In comparing the balance of the board of survey reports with the balance of the inventory book as at 31 December 2017, it was observed that 30 assets units valued at Rs.229,750 had not been documented in the inventory book and there had been a deficit of 63 assets units valued at Rs. 502,350.
- (c) Advance of Rs.1,618,141 had been given to a foreign publication institute on 31 December 2014 and in settling advances, books had been given in 03 circumstances to settle a sum of Rs.1,803,092. Due to not maintaining the advance register accurately, regarding the advance amount given in relation to over recovered amount of Rs.184,951 had not been mentioned in the advance register.

2.3 Accounts Receivable

The following observations are made.

- (a) Amounting to Rs.79,000 paid by the Institution in the year 2012 as the air fare of a lecturer who was proceeded abroad for a Postgraduate Degree training on the financial sponsorship of the University Grants Commission, had not been recovered from the University Grants Commission even up to the year 2017.
- (b) 01 year to 04 year old loan balance of Rs.1,412,012 had been included in the advance balance of Rs.3,840,830 given for the books publishers to purchase books

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and Management Decisions observed in audit are stated below.

Reference to Laws, Rules and Regulations and Management Decisions

Non-compliance

(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Financial Regulation 371

(b) Sections 4.2.2 and 4.2.6 of the Public Enterprises Circular No. PED/12 of 02 June 2003

Even though advances should be settled immediately after completing the advanced activity, from 02 months to 11 months delayed circumstances were observed in settling.

Even though the Sectorial Performance of the Unani, Ayurveda and Postgraduate Degree Sections had been evaluated by the Board of Management, the quarterly, half yearly and annual performance reports had not been furnished to the Line Ministry and the Department of Public Enterprises of the Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the year 2017 had been a deficit of Rs.23,668,975 as compared with the corresponding deficit of Rs.31,183,577 of the preceding year, thus the financial result of the year under review had been increased by Rs.7,514,602. Increase in recurrent grants receipts by Rs. 40,681,000 and decrease in provision for gratuity by Rs.10,535,465 had been mainly affected the above increase.

In analyzing the financial results of the year under review and 04 preceding years, there had been a financial surplus in the year 2014 and deficiency in the years 2013, 2015, 2016 and 2017. However, after taking into consideration on personnel emoluments, depreciation on non-current assets, the contribution of Rs.174,701,679 in the year 2013 had been increased up to Rs.290,422,423 by the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) It was unable to measure the achievement of targets and objectives of the institute due to not enacting the total cost and the cost allocation for each activities and not taking actions to identify the indicators for measuring the achievement of the targets in preparing Action Plan 2017.

- (b) In terms of Guideline 4.2.1 (b) of the Government Procurement Guidelines 2006, even though procurement activities envisage at least for a period of three years should be listed in the Master Procurement Plan by all Government Institutions, the Institution had not prepared a Master Procurement Plan.
- (c) Even though it had been shown the time period of the procurement process of the Institute in the detail procurement plan prepared for the year under review, it was observed in the examination of the procurement process follows in the Institute that action had not been taken according to the time period scheduled.
- (d) The expected targets and continuous condition could not be identified separately through the procurement allocated for the year under review due to not showing un-fulfilled procurements as continuous work in the Procurement Plan relating to the last year.

4.1.2 Operation and Review

The following observations are made.

- (a) In the examination of the enrollment of students to the Institution during the previous 6 years, even though number of students amounted to 1340 according to the resources available in the University for the enrollment and approved by the University Grants Commission, only 1185 students had been enrolled relating to that period.
- (b) In the examination of the examination results relating to 5 academic years, percentage of failure in examinations out of the students appeared for the examinations had been increased with the seniority of the students and details are given below.
 - (i) The percentage of failure in examinations was 39 per cent and 25 per cent respectively out of the students who appeared for the examinations for 18 examination sessions due in the year 2017 for the Ayurveda Medical Degree and Unani Medical Degree from the academic year 2010/2011 to the academic year of 2015/2016.
 - (ii) The new syllabus had been introduced in the year 2010 and additional 11 examinations had been conducted in the year 2017 for the students who failed each examination of the Ayurveda Medical Degree and Medical Unani Degree Courses under the old syllabus. Out of the number of students appeared for the said examinations, the percentage of failure in examinations was 56 per cent and 71 per cent respectively.

4.2 Management Activities

Institute of Indigenous Medicine and hostels of male students is carried out on a building obtained on 99 year lease from the Irrigation Department. Amounting to Rs. 101,000,000 given to acquire a land for the construction of a hostel building had been returned to the treasury due to not performing that activity.

4.3 Utilization of Capital Grants

Due to not procuring as per the Procurement Plan, there had been a balance of Rs.115,991,414 in the Capital Grant Account as at 01 January 2017. Amounting to Rs.43,600,000 had been received as capital grants during the year under review and amounting to Rs. 45,792,461 had been expensed for the acquisition of assets during the year. As such balance of the unutilized capital grant as at 31 December 2017 amounted to Rs.113,798,953 including the amount of Rs.101,000,000 returned to the treasury due to not purchasing of the land for the construction of students' hostels.

5. Sustainable Development

5.1 Achieving Sustainable Development Goals and Targets

- (a) Even though it is required to take actions regarding the by all public institutions as per the United Nations Year 2030 "Agenda" on Sustainable Development, Institute had not been aware on how should be implemented regarding the activities which comes under own scope relating to the year under review.
- (b) Due to the Institute had not been aware on Year 2030 Agenda Hence, actions had not been taken to identify the Sustainable Development Goals, Targets, Road maps for achieving the targets and Indicators for measuring the achievement of the targets, relating to the activities of it.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though the Draft Annual Report and with the financial statements should be rendered to the Auditor General within 60 days after the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, Draft Annual Report of the year 2017 had not been furnished to the audit.

6.2 Procurement and Contract Procedure

The following observations are made.

- (a) Actions had not been taken regarding 3 activities for which provision amounting to Rs.1,800,000 had been made for rehabilitation and improvement of capital assets and amounting to Rs.13,562,425 had been expensed for the activities relating to year 2015 and 2016 in the year under review. Activities of amounting to Rs.2,380,929 thereof had not been completed even by 31 December 2017.

- (b) Even though amounting to Rs. 1 million and Rs.3 million had been provisioned for purchasing of laboratory equipment, purchasing of medical equipment, purchasing of computers and printers in the year under review, any relevant purchases had not been made.
- (c) 04 activities of estimated value amounting to Rs.1,700,000 planned for the Capacity Development Research Project had not been done during the year under review.

7. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director from time to time. Special attention should be paid to the following areas of control.

Areas of system & Controls	Observations
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(a) Advance Register on Foreign Periodicals	Advance Register maintains by including the details of the advance given for foreign periodicals had not been maintained in an updated manner.
(b) Assets Control	<ul style="list-style-type: none"> (i) Numbering had not been done in entering the assets acquired during the year under review in the fixed asset register. (ii) There had been variations between the assets survey reports and the inventory books.
(c) Accounting	<ul style="list-style-type: none"> (i) Even though unused library books had been removed from the accession register, cost of those books had not been removed from the accounts. (ii) Financial statements had not been compared with the advance registers.
(d) Planning	There had been weaknesses in preparing the procurement plan and the action plan.
(e) Procurement	<ul style="list-style-type: none"> (i) Government grants had been returned due to not completing the procurement activities during the year under review, by obtaining funds allocated for the procurement activities planned for the year from the treasury. (ii) Actions had not been taken as per the Procurement Guideline 2006, Procurement Handbook and Procurement Plans.