

Institute of Indigenous Medicine affiliated to the University of Colombo - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Indigenous Medicine affiliated to the University of Colombo for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the institute.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observation on Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non- Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
(a) Even though an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred according to paragraph 47 of the Sri Lanka Public Sector Accounting Standards 03, without doing so the previous year's corrections amounted to Rs. 20,846,515 were adjusted to the cumulative profit carried forwarded.	Expenditure incurred on the construction of a semi-permanent building was debited to the work in progress account with the proceeds from the withdrawn of the fixed deposit in which was under investment in the previous year and it is the adjustment made at the time of capitalization after making the final payment for the relevant building in the current financial year.	Should be complied with Sri Lanka Public Sector Accounting Standards.
(b) Although action should be taken for revaluation of fair value of fully depreciated assets and disclose them in the financial statements in accordance with paragraph 42 of the Sri Lanka Public Sector Accounting Standards 07, the fair value of	Due to determining the value of library books or determining its effective lifetime is a very difficult and impracticable task, action has been taken to disclose the value of library books which have	Should be complied with Sri Lanka Public Sector Accounting Standards.

library books, costed Rs.25,865,542 were further in use despite being fully depreciated by 31 December 2020 by the university, had not been disclosed. completely depreciated during the financial year 2020 through the notes to the financial statements.

- (c) Contrary to the provisions of paragraph 55 of Sri Lanka Public Sector Accounting Standards 07, a total sum of Rs. 28,039,464 had been transferred to the General Reserve Account in 2019 and 2020 from a revaluation surplus incurred in 2011 and 2016 without retirement or disposal of assets. As per paragraph 55 of Sri Lanka Public Sector Accounts Standards No. 7, a certain amount of surplus can also be transferred when using the assets by the entity. In such a case, the amount of the surplus transferred will be the difference between the depreciation based on the revaluation carrying value of the asset and the depreciation based on the initial cost of the asset. Thus, Amortization was calculated. Should be complied with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

----- Audit Observation -----	Comments of the Management	Recommendation -----
Due to capitalization of new lecture hall in July 2020 which had been in use since December 2019, costed for Rs. 15,530,131, the depreciation for the year was under accounted by Rs. 426,530. Accordingly, the deficit for the year and the value of the building were under stated and over stated by that amount respectively in the financial statements.	This difference was occurred due to that the retention value of Rs. 221,228 spent on the building was not included in the accounts.	The values of the assets included in the financial statements and fixed assets register should be the equal and the depreciation should be calculated on the correct value.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 40 (1) of the National Audit Act No. 19 of 2018	An internal audit unit had not been established.	The requirement for an internal audit division is an issue as the institute is in the process of being converted into a faculty of the University of Colombo.	Should act in accordance with the Audit Act.
(b) Circular No. 636 dated 14 July 1995 of the University Grants Commission	Although the results should be issued within 03 months from the date of the examination as per the circular, the release of results of 05 examinations held during the year under review and 04 examinations conducted in the previous year was delayed for a period ranged from 04 months to 07 months.	As mentioned above, the results of the 05 examinations were delayed due to the closure of the institute from March to May 2020 due to the Covid epidemic.	Circular provisions should be followed.
(c) Section 8.2.2 of the Public Enterprise Circular No. PED / 12 of 02 June 2003	A sum of Rs. 17,254,537 had been invested in fixed deposits by the institute without obtaining the prior approval of the Minister in charge of Finance.	Approval will be taken from the Ministry of Finance in the opening of fixed deposits in the future	Circular provisions should be followed.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs. 7,712,692 and the corresponding deficit in the preceding year was Rs.140,992,411. Accordingly, an improvement of Rs.133,279,719 in financial result was observed. Increase in the recurrent grant by RS. 560,020,000 and decrease in the provision for gratuity by Rs. 119,301,584 had mainly attributed to this improvement.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Although the approval of the Cabinet was granted on 28 August 2019 to take over the land with buildings belonging to the Irrigation Department which has been running the student hostel for 24 years to the Institute of Indigenous Medicine, university of Colombo, the acquisition works of this land had not been commenced.	The approval of the Urban Development Authority (UDA) has received for the new building plans and with that approved plans the cabinet approval had been received on 17.05.2021 to the Irrigation Department to transfer of the entire land to the Institute of Indigenous Medicine. It is expected that the assigned documents will be received by the Institute to commence the proposed work.	Action should be taken to take over the ownership.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Comments of the Management	Recommendation
Although the Institute was aware of the United Nations' Agenda for Sustainable Development 2030, action had not been taken to identify the Sustainable Development Goals and objectives and the milestones thereon to be achieved, which could be applicable to the organization.	A Green Technology Project Proposal was prepared to promote Green Technology within the Institute with the objective of achieving the Sustainable Development Goals and the recommendation of the Building Committee and the approval of the Board of Management were received for the project proposal. Further, the institute has started implementing the relevant project proposals.	The Sustainable Development Goals and targets should be identified.