

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Biochemistry, Molecular Biology and Biotechnology affiliated to the University of Colombo for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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) and 108 (1) of the Universities Act No. 16 of 1978 and Section 17 of the Institute of Biochemistry, Molecular Biology and Biotechnology Ordinance No. 01 of 2003 enacted under the Sub-section 18 of the Universities Act No. 16 of 1978, and the Section 12 of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Institute as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

My opinion is qualified based 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 determines 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 intends 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 Sub-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 Auditor's Responsibilities for the Audit of the Financial Statements

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 audit 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 audit 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 audit 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 Observations on Preparation of Financial Statements

1.5.1 Internal control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non Compliance with the Reference to the Particular Standard	Comment of the Management	Recommendation
(a) According to paragraph 43 of Sri Lanka Public Sector Accounting Standard 03, although the change in the useful lifetime of a depreciating asset should be adjusted as a change in accounting estimates, the institute had retrospectively adjusted the increase in vehicle depreciation rate from 10 percent to 20 percent in the year under review as a change in accounting policy. Accordingly, depreciation of	Action will be taken to adjust in the year 2023 considering it as an accounting estimate as per standards and comparative values will also be disclosed.	Accounting standards should be followed.

motor vehicles of Rs.515,500 for the year and carrying value of motor vehicles of Rs.2,062,001 were not shown in the financial statements.

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| <p>(b) Although the residual value and useful lifetime of an asset should be reviewed annually in accordance with paragraph 65 of Sri Lanka Public Sector Accounting Standard 07 and expected changes should be accounted for as a change in accounting estimates in accordance with Sri Lanka Public Sector Accounting Standard 03, computers, laboratory equipment and library books costed for Rs.48,862,850 were further in use despite being fully depreciated were not dealt with in the same way.</p> | <p>The final accounts of the year 2023 will be prepared in accordance with accounting standards in respect of fully depreciated property, plant and equipment.</p> |
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Accounting standards should be followed.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
<p>(a) The balance of foreign currency bank account as on 31 December 2022 amounted to USD 25,726 had not been accounted for at the rate of foreign exchange prevailing on that date. As such, the foreign exchange gain of Rs.897,615 was not adjusted in the financial statements</p>	<p>That the foreign exchange profit will be properly adjusted in preparing the accounts for the year 2023.</p>	<p>Action should be taken to prepare financial statements accurately.</p>
<p>(b) An amount of Rs.10,290,805 had been transferred from the course income to four funds and directly deducted from the income instead of being shown as disbursements from profit at the end of the year in the financial performance statement. As such, the income of the year was understated by that amount.</p>	<p>Action will be taken to adjust through statement of changes in equity from the year 2023.</p>	<p>Action should be taken to prepare financial statements accurately.</p>

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) State Accounts Circular No. 30/94 dated 20 April 1994 and Director General of External Resources Department's letter No. SC&PMU/Grant/19 dated 25 July 2019	The total foreign grant of Rs.8,923,951 received from the year 2014 to the year 2019 had been directly taken to the institute without the knowledge and concurrence of the Department of External Resources.	As pointed out by the audit, action will be taken to follow the State Accounts Circular No. 30/94 regarding the research grants in the future.	Circular should be followed.
(b) Section 4.2 of University Grants Commission Circular No. 04/2016 dated 01 March 2016	The approval of the University Grants Commission was not obtained for 4 full-time degree courses conduct by the institute.	The process of obtaining approval for the four degree courses has been initiated.	Circular should be followed.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 892,445 and corresponding deficit amounted to Rs.16,588,670 in the previous year, thus observing an improvement of Rs.17,481,115 of the financial results. The increase in certificate course income by Rs.3,482,783 and the increase in fixed deposit interest income by Rs.8,428,222 had mainly attributed to said improvement.

2.2 Trend Analysis of major Income and Expenditure items

The following observations are made.

- (a) More than 74 percent of the total income of the institution consisted of government grants in the year under review, and government grants had increased by 1.9 percent compared to the previous year.
- (b) Interest income on investments increased by 202 percent and maintenance expenses by 167 percent in the year under review as compared to previous year.

2.3 Ratio Analysis

(a) Current Ratio

The current ratio in the previous year was 2.72:1 and in the current year was 4.14:1.

(b) Quick Assets Ratio

The quick asset ratio in the previous year was 2.66:1 and in the current year the ratio was 4.06:1.

3. Operational Review

3.1 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
Although only 02 post of temporary Scientific Assistant (contract basis) were approved in the cadre of the institute, 07 officers were required for that position. As such, 05 staff were in excess. Those 05 excess officers had been recruited on assignment basis and a sum of Rs.2,251,884 had been paid from the generated income in the year 2022.	That 05 temporary Scientific Assistants were recruited on assignment basis in addition to these positions based on the available capacity of the academic departments and payment is being made from the earned income.	Staff should be maintained only on formal approval.