

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Institute of Indigenous Medicine had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Institute of Indigenous Medicine as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following observations are made.

- (a) Provision for gratuity amounting to Rs.17,764,292 had not been made up to 31 December 2010 for 50 members of the academic staff while the uncomputed under provisions in respect of the non – academic staff relating to the preceding years also had been adjusted to the Income and Expenditure Account for the year under review.
- (b) The course fee income and expenditure of the pharmacists course for the year under review amounting to Rs.1,410,000 and Rs.639,164 respectively had not been included in the Income and Expenditure Account.
- (c) The arrears of income of the postgraduate diploma course as at the end of the year under review amounting to Rs.1,581,667 had not been brought to account.

- (d) The direct credits amounting to Rs.775,488 that appeared in the Bank Statements during the years 2006 to 2010 had been credited to the Sundry Deposits Account without identifying and posting to the respective accounts.
- (e) Even though the reimbursement of the Mahapola advances amounting to Rs.300,000 granted to the first year students had been obtained, action had not been taken for the settlement of the advance account.

1:2:2 Unsettled Account Balances

Balances amounting to Rs.87,031 brought forward over a number of years in 04 Current Liabilities Accounts, balances older than 02 years amounting to Rs.534,783 in 03 Deposit Accounts, security deposits older than 04 years amounting to Rs.1,593,064 relating to a construction contract and the balance of Rs.127,296 accruing over a number of years in the “Unpaid Examination Fees Account” remained without taking action for settlement.

1:2:3 Inappropriate Disclosures

The funds received from external parties for the special activities such as research work of the Probationary Lecturers, Seminar on Traditional Knowledge and the Oriental Medical Science Fund and the expenditure therefrom had been recorded in the Sundry Deposits Account instead of recording in separate ledger accounts. These transactions could not be quantified as they could not be clearly identified.

1:2:4 Unreconciled Control Accounts

The accuracy of the balances of the following items of account appearing in the financial statements could not be established in audit as such items did not reconcile with the subsidiary registers / records.

Item of Account	Balance according to the Account	Subsidiary Register / Record	Amount appearing in the Subsidiary Register / Record	Difference
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	Rs.		Rs.	Rs.
(a) Sarath Ranasinghe Fund – Investment Account	60,966	Confirmation of Bank Balance	86,264	25,298
(b) Distress Loans	19,162,824	Schedule	18,952,910	209,914
(c) Motor Vehicle Loans	2,271,215	- Do -	2,251,354	19,861
(d) Employees' Loans	371,269	- Do -	325,890	45,379
(e) Computer Loans	913,960	- Do -	891,500	22,460
(f) Festival Advances	265,649	- Do -	223,800	41,849
(g) Stores Advances	884,430	Report on Physical Verification of stocks	1,255,800	371,064

1:2:5 Lack of Evidence for Audit

The following items appearing in the financial statements could not be satisfactorily vouched in audit due to the unavailability of evidence indicated against each item.

Item	Value	Evidence not made available
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	Rs.	
(a) Cancelled Cheques (Balance as at 01 January 2010)	312,231	Schedule
(b) Banagala Fund	10,050	File
(c) Hostel Deposits	25,000	File and Confirmation of Bank Balance
(d) Tender Deposits (Refundable)	130,256	A proper register

(e) Library Deposits	59,460	- do -
(f) Hostel Deposits	180,767	- do -
(g) Fixed Assets (Cost of fully depreciated Assets)	59,141,389	- do -

1:2:6 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non – compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non - compliance
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(a) Universities Act, No. 16 of 1978 Section 109	The audited financial statements for the year 2009 had not been published in the Government Gazette.
(b) Treasury Circular No. 842 of 19 December 1978	The Register of Fixed Assets prepared through a private institution at a cost of Rs.171,243 in the year 2001 had not been updated.
(c) Treasury Circular No. IAI/2002/02 of 28 November 2002	A separate register had not been maintained for computers, accessories and software.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 103	Action had not been taken on the shortages of 1,303 items of goods included in the Board of Survey Report for the year 2009.
(ii) Financial Regulation 396	The cancellation of 05 lapsed cheques valued at Rs.65,688 and issue of fresh cheques in lieu thereof had not been done through the “Cancelled Cheques Account.”

2. Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, the working of the Institute for the year ended 31 December 2010 had resulted in a deficit of Rs.142,942,199 before taking into account the Government grant for recurrent expenditure, as compared with the corresponding deficit of Rs.122,861,768 for the preceding year. The deficit for the year under review had been reduced to Rs.38,842,199 due to the Government grant of Rs.104,100,000 received for recurrent expenditure of the year under review and the deficit for the preceding year had been reduced to Rs.16,767,768 due to the Government grant of Rs.106,094,000 received for the recurrent expenditure of that year. Thus the financial result for the year under review as compared with the preceding year, had further deteriorated by a sum of Rs.22,074,431.

2:2 Operating Review

The following observations are made.

2:2:1 Performance

- (a) The following 04 items of activities in the Action Plan had not been carried out.
- i. Updating of the Teaching Hospital Records.
 - ii. Review of the current Practical Training Programmes on Pathology Consciousness.
 - iii. Enhancing the Efficiency of the Performance Evaluation Process.
 - iv. Appointment of a Committee for the conservation of medicinal herbs.

(b) Academic Activities

The following observations are made in connection with the courses on Ayurvedic Medicine and Surgery and Unani Medicine and Surgery.

- (i) The syllabuses of the Degree Courses had not been revised since the year 1983.
 - (ii) Lecture schedules for each subject had not been prepared at the commencement of each academic year.
 - (iii) Even though 02 to 08 lecturers had been attached to each of the 28 subjects out the 31 subjects of the Ayurvedic Course, parts of subjects relating to each lecturer had not been formally assigned. The contribution of certain senior lecturers for the academic activities including the practical training had been minimal.
 - (iv) Whether the full coverage of the syllabuses had been achieved could not be established in audit due to the incomplete and irregular manner of the maintenance of Students' Attendance Registers.
 - (v) Even though the services of 29 external lecturers had been obtained a formal assignment of duties and a proper supervision had not been done.
- (c) A situation of students abandoning the courses without successfully completing the courses and failing examinations had been developing over several past years and the management had not paid any attention to that situation.

Academic Year of Admission	Number of Students Admitted	Number remaining by 5 th Year	Number of 5 th Year Passes	Percentage
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				%
2003 / 2004	102	67	45	44
2003 / 2004 (A)	78	62	50	64
2002 / 2003	95	86	63	66
2001 / 2002	101	80	58	57
2000 / 2001	98	54	43	44
1999 / 2000	114	73	53	46

2:2:2 Management Inefficiencies

The following observations are made.

(a) Bursary and Mahapola Payments

- (i) Bursaries had been paid continuously contrary to the provision of circulars to 10 students who had not followed academic activities with perseverance in the academic year 2009 / 2010 and out of them 03 students had not sat the examination of the academic year 2008 / 2009.
- (ii) Balances in the Bursaries and the Unpaid Mahapola Account amounting to Rs.1,415,900 and Rs.129,550 respectively existed as at 31 December 2010 due to obtaining reimbursements from the University Grants Commission even on behalf of students who were not paid such allowances.
- (iii) Action had not been taken in terms of provisions of circulars for the appointment of a Committee for Mahapola and Bursaries and for the preparation of Monthly Progress Reports.

(b) Masters Course in Ayurveda / Unani

A budget and a statement of expenditure had not been prepared for this full – time course. A sum of Rs.630,900 had been paid to 84 officers attached to 09 Divisions of the Institute as allowance for assisting courses, without a prior identification of the duties of the assisting staff and without evidence in support of the work done.

(c) Development and Maintenance of Libraries

(i) The budgeted provision of Rs.1,500,000 for the year under review and the sum of Rs.272,000 collected from the candidates for postgraduate degrees had not been effectively utilized. The Director informed that the sum of Rs.1,500,000 was transferred, with the approval of the Treasury to rehabilitation and improvement works.

(ii) An Annual Stock Verification of Library Books had not been carried out in accordance with the circulars from the inception up to the year under review. The outdated and damaged library materials had accumulated in the library stores.

(d) Scholarships and Grants

Action had not been taken to award the grants of Rs.25,000 made by the Oriental Medical Services Fund for the academic year 2008 / 2009 to the respective students and also to obtain the grants relating to the academic year 2009 / 2010.

(e) Outstanding Staff Loans

(i) Steps had not been taken to recover loans amounting to Rs.1,044,815 granted to 06 employees and remaining outstanding for periods ranging from 01 year 04 months to 08 years.

- (ii) Contrary to the provisions of the Establishments Code, the recovery of Computer loans amounting to Rs.60,000 granted to 02 employees had been delayed by 08 and 06 months.

2:2:3 Poor Financial Control

- (a) Delayed banking of remittances and banking amounts in excess of daily collections and setting off such excess against the collections of the following day had been resorted to due to the poor financial control prevailing in the Institute. No supervision had been exercised over the Register of Daily Receipts of the Shroff and the banking of cash.
- (b) Eight unrealized deposits of 02 Bank Current Accounts amounting to Rs.17,854 including sums amounting to Rs.4,027 older than 01 year and 09 cheques valued at Rs.9,100 of the Research Current Account written 09 months ago and retained without being sent to the respective payees had been shown in the Bank Reconciliation Statements.

2:2:4 Underutilized and Idle Assets

- (a) Retention of Idle cash in Bank Current Accounts
 - (i) The average monthly capital expenditure incurred in the year under review ranged between Rs.50,850 and Rs.1,543,700 while an average monthly balance of Rs.3,819,000 had been retained in the Bank Current Account maintained for the purpose. The balance of that account as at 31 December 2010 amounted to Rs.5,656,120.
 - (ii) A sum of Rs.665,772 received from the World Health Organization in the year 2006 had been retained idling in the Bank Current Account since that year without being used for the intended purpose.

(b) Idle Assets

Stocks of 4,120 units of goods of 18 categories valued at Rs.65,709 remained non – moving over a number of years.

2:2:5 Uneconomic Transactions

The following observations are made.

(a) Payment of Case Costs

A sum of Rs.420,693 had been paid as case costs to private lawyers hired for appearing in a case filed against the officers including the Head of Institute without obtaining the advice of the Attorney General in terms of Sections 5 and 6 of Chapter XXXIII of the Establishments Code. A sum of Rs.496,250 had been paid in the same manner in connection with a case decided in the preceding year.

(b) Contrary to the instructions of circulars, overtime for periods exceeding 20 hours per mensum amounting to Rs.2,711,343 had been paid for 23,153 hours to the non – academic staff of 70 for attending to their normal duties.

2:2:6 Irregular Transactions

The following observation are made.

(a) Calling for quotations, accepting quotations and opening of quotations in connection with the purchase of goods and services valued at Rs.2,230,889 in 08 instances in the year under review had been done contrary to the provisions of the Procurement Manual of the Government. Payment for those goods had been made without obtaining a certificate on the quality of those goods from a competent person.

- (ii) Recommendations of a Technical Evaluation Committee consisting of competent persons had not been obtained for the purchase of 04 categories of goods and services valued at Rs.723,330.

(b) Advances

An advance of Rs.30,000 granted to an officer on 18 October 2010 for carrying out improvements to the sewerage pipes system of the hostel had been settled in cash on 15 March 2011 without being used for the intended purpose.

2:2:7 Action Plan

An Action Plan for the first half of the year 2010 had not been prepared, while the Action Plan prepared for the last half of the year remained incomplete and inconsistent with Section 5:1:2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

2:2:8 Performance Reports

The Performance Report in terms of Section 4:2:6 of the above circular had not been prepared.

2:2:9 Budget

Material variances existed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

3. 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 is needed in respect of the following areas of control.

- (a) Fixed Assets Control
- (b) Maintenance of Inventory Registers
- (c) Funds Control
- (d) Planning and Budgeting
- (e) Overtime and Payments to Staff
- (f) Advances
- (g) Accounts Payable
- (h) Award of Scholarships
- (i) Academic Activities
- (j) Procurements
- (k) Recovery of Staff Loans
- (l) Library Development
- (m) Payment of Bursaries and Mahapola