

## **Institute of Indigenous Medicine Affiliated to the University of Colombo - 2014**

---

The audit of financial statements of the Institute of Indigenous Medicine Affiliated to the University of Colombo for the year ended 31 December 2014 comprising the statements of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity 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) the Section 108 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University 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, conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

### **1.4 Basis for Disclaimer of Opinion**

---

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of the recorded or unrecorded items, and the elements making up the statement of financial position, statements of financial performance, statement of changes in equity and cash flow statement.

## **2. Financial Statements**

---

### **2.1 Disclaimer of Opinion**

---

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **2.2 Comments on Financial Statements**

---

#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

---

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard No.3

---

Even though an accounting policy on the amortization of assets received by the Institute as “gifts and grants” had been introduced during the year under review, action had not been taken for converting the depreciation relating to the preceding years to amortization. As such the “gifts and grants” shown in the accounts had not been represented in the non-current assets.

Similarly the amortization value for the year under review on the fixed assets received as gifts and grants amounting to Rs.3,049,949 had been debited to the Government Capital Grants Account instead of being debited to the Gifts and Grants Account.

(b) Sri Lanka Public Sector Accounting Standard No.7

---

(i) Even though the increased amount of depreciation arising from the revaluation of fixed assets should be directly adjusted to the Accumulated Fund, the depreciation on the revaluation surpluses of Rs.14,131,278 for the year under review had been credited to the Income and Expenditure Account.

(ii) Even though the official quarters of the Sub-warden of the Moragasmulla Women’s Hostel demolished in the year 2014 had been revalued on 01 January 2011, the entire revaluation amount of Rs.2,100,000 had been considered as a revaluation surplus without identifying the then net value of that asset. As such, the actual loss had not been correctly identified in the elimination of the asset during the year under review. It was further observed that, the capitalized expenditure incurred during the rehabilitation and improvement of the building has also not been identified specifically.

### **2.2.2 Accounting Deficiencies**

---

The following observations are made.

(a) The useful age of 06 categories of fixed assets revalued for Rs.318,070,239 as at 01 January 2011 had not been determined and as such the depreciation on fixed assets had not been correctly computed.

(b) The entire proceeds of the sale in respect of fixed assets disposed of by auction, amounting to Rs.158,529 had been brought to account as income without considering the net value thereof.

(c) Action had not been taken to compute and account for the value of 31 computers and accessories and units received as aid from the Higher Education for Twenty First Century Project (HETC) and 116 copies of books received from various parties for the library.

### 2.2.3 Lack of Evidence for Audit

---

The Register of Fixed Assets had not been maintained in the updated manner and correctly and as such the accuracy of the cost amounting to Rs.236,394,741, the depreciation for the year under review amounting to Rs.21,793,508, the accumulated depreciation amounting to Rs.92,848,684 and the net value of Rs.143,546,057 of 05 categories of assets reflected in the accounts as at 31 December of the year under review, could not be ensured.

### 2.3 Accounts Receivable and Payable

---

The following observations are made.

- (a) Action had not been taken for the payment of the audit fees amounting to Rs.51,850 payable in respect of the years 1988 and 1989.
- (b) Retention money amounting to Rs.441,822 recovered from contractors and brought forward over several years and a foreign travel advance amounting to Rs.79,000 receivable from the University Grants Commission had not been settled.

### 2.4 Non-compliance with Laws, Rules, Regulation and Management Decisions

---

The following observations are made.

#### Referees to Laws, Rules, Regulations and Management Decisions

---

#### Non-compliance

---

- (a) Government Procurement Guidelines 2006
  - (i) Section 5.4.11

Even though the Value Added Tax should be paid only after obtaining tax invoice from the VAT registered contractors/ suppliers it had not been so done.

- (ii) Section 5.4.12

Even though the details of the payment of Value Added Tax should be furnished to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before fifteenth day of the following month it had not been so done.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- 

- (i) Financial Regulations 139(7) and 262(2)

The “PAID” Stamp had not been placed on 03 vouchers and the relevant supporting documents for payments valued at Rs.105,980

- |  |  |
|--|--|
| (ii) Financial Regulations 231(1), 138(6) and (8)                                      | A test check revealed that the relevant bills had not been attached to 05 payment vouchers valued at Rs.1,534,475.   |
| (iii) Financial Regulation 394   | Action had not been taken either for the payment or for write back to income, 62 cancelled cheques valued at Rs.443,489 between 10 months and over three years old. Out of those 04 cheques valued at Rs.10,180 had not been entered in the Register of Cancelled Cheques. |
| (c) Public Finance Circular No.02/2004 of 17 October 2014 and Financial Regulation 128 | The Annual Stock Verifications had not been carried out during the specified time frames and action had not been taken on 1,939 units of unusable goods.   |
| (d) Public Administration Circular No.41/90 of 10 October 1990                         | Fuel conception of motor vehicles had not been tested once in every 06 months  |
| (e) Public Enterprises Circular No.95 of 14 June 1995                                  | A sum of Rs.1,538,000 had been paid without the approval of the Treasury during the year under review to the academic and non-academic staff for the performance of duties of external courses during the normal office hours.   |
| (f) Treasury Circular No.1A1/2002/02 of 28 November 2002                               | The Register of Assets of Computers, Accessories and Software had not been maintained with the particulars as specified in the circular.   |

### **3. Financial Review**

---

#### **3.1 Financial Results**

---

Accounting be the financial statements presented, the deficit generated from operation for the year ended 31 December 2014 amounted to Rs.9,425,582 as compared with the corresponding deficit of Rs.98,204, thus indicating a deterioration of the deficit generated from operation for the year under review by a sum of Rs.9,327,378 as compared with the preceding year. Nevertheless, the financial result had improved to a surplus of Rs.15,774,418 due to the profit of Rs.25,200,000 received from sale of a block of land during the year under review.

### **4. Operating Review**

---

#### **4.1 Performance**

---

The following observations are made.

(a) Academic Activities of Students

---

- (i) The recurrent expenditure incurred on the academic activities of 934 students during the year under review amounted to Rs.296,228,629 and as such the cost per student amounted to Rs.317,161. The recurrent expenditure incurred on the academic activities of 876 students during the preceding year amounted to Rs.223,548,286 and as such the cost per student of that year amounted to Rs.255,192.
  - (ii) Out of the 1,112 students registered in the year under review for the courses of the Institute, 178 or 16 per cent had dropped out from courses by the end of the year.
  - (iii) The release of results of examinations had been delayed considerably beyond the periods specified in the courses Regulations.
  - (iv) Even though the amendments made in the year 2011 to the qualifications for obtaining the Ayurveda Medical and Surgical Degree had been shown in two different ways in two places in the Courses Regulation, the attention of the curricular Development and Evaluation Committees had not been paid to that matter.
  - (v) A comparison of the lecture hours appearing in the Courses Regulations on the Ayurveda Medical and Surgical Degree with the actual lecture hours revealed that in respect 09 subjects 166 lecture hours less than the specified number and in respect of 06 subjects 146 lecture hours exceeding the specified number had been conducted.
  - (vi) Even though 05 curricular Development and Evaluation Committees had not established in the Institute, there was no evidence that those had effectually functioned.
- (vii) Postgraduate and External Courses
- 
- (i) Even though the Institute of Indigenous Medicine Ordinance No 07 dated 21 December 1979 did not devolve powers to the Institute for the conduct of Postgraduate Courses, the Institute had continued to conduct Postgraduate Courses over a number of years without amending the Ordinance.
  - (ii) The approval of the University Grants Commission had not been obtained for the curriculum of the Ayurveda Specialist Physicians three year course 2012/2015 commenced on 21 May 2012 by enrolling 20 students.
  - (iii) According to paragraph 13(iii) of the Ayurveda Specialist Physician Course Ordinance, 06 months foreign training should be provided. Nevertheless only 03 months foreign training had been provided. Separate files including the academic performance had not been maintained in terms of paragraph 13(i).

- (iv) The overhead expenditure and the cost of human and physical resources of the courses conducted by charging fees had been met from the Government Funds.

#### **4.2 Management Inefficiencies**

---

The following observations are made.

- (a) Action had not been taken to acquire the land belonging to the Department of Irrigation on which the Male Hostel is being maintained since the year 1995, and to carry out improvements to the building and maintain in the condition fit for a hostel. The post of Sub-Warden had been abolished and the administration thereof had been assigned to the Maintenance Controller. As such it was observed that the administration of that is not being carried out properly and that hostel fees are not being recovered. In addition, it was observed that due to the 03 Female Hostels under the control of one Sub-Warders and the lack of Assistants pose security problems to the female students.
- (b) Money received from donors for the grant of scholarships to the students had been invested in 04 fixed deposits without being utilized for that purpose and the balance there of as at 31 December of the year under review amounted to Rs.266,361.

#### **4.3 Operating Inefficiencies**

---

The following observations are made.

- (a) The quotations of the State Engineering Corporation in connections with the purchase of cement tables had been rejected as quotations had been sent by fax. As such a loss of Rs.75,797 had been incurred.
- (b) A drugs production machine had been purchased in the year 2012 at a cost of Rs.1,280,000 with the objective of production and sale of drugs in addition to the academic activities of students. But drugs had not been produced. Four drugs production machines purchased in the year under review for Rs.319,460 prior to the construction of a laboratory for the installation of the machines, those had been idling.

#### **4.4 Transactions of Contentious Nature**

---

The following observations are made.

- (a) In addition to the salaries and allowances paid to the acting Director and the three members of the staff attached on full time basis to the Postgraduate Division, a sum of Rs.215,800 at the rate of Rs.12,600 per month had been paid as allowances out of the courses income up to 31 December of the year under review.
- (b) Even though plans had not been made for the conduct of lectures for the Postgraduate Courses after 6.00 p.m., four Lecturers had obtained lecture fees amounting to

Rs.15,250 stating in the vouchers that lectures of 12 hours were conducted after 8.00 p.m.

- (c) Forty three Lecturers attached to the Degree Course of the Institute had obtained allowance by conducting academic activities of the Postgraduate Courses during daytime.
- (d) Even though work in connection with academic activities had not been done by the Institute from 15 February to 15 May of the year under review as the students of the Ayurveda Medical Specialist Physicians Course had been undergoing foreign training during that period, the assistance staff had been paid allowances amounting to Rs.213,700 in respect of that period though they did not performed duties relating to academic activities.
- (e) Instead of obtaining the software for the 29 computers received from the Higher Education for Twenty First Century Project (HETC), the computers had been operated by copying unlicensed software contrary to the provisions in the Intellectual Property Act, No.6 of 2003.
- (f) Eighteen machines the estimated value of which was Rs.3,302,059 requested for students' academic activities, had been purchased for Rs.17,180,043 which exceeded the estimated value by a sum of Rs.13,877,984 or 420 per cent.

#### **4.5 Uneconomic Transaction**

---

The following observations are made.

- (a) Even though the National Centre for Higher Education in Humanities, Arts and Social Science had given a grant of Rs.590,000 in the year 2006 and 2008 to a Senior Lecturer of the Institute to read for the Doctor of Philosophy Degree, that Lecturer had not completed the Degree up to date.
- (b) Even though a newspaper advertisement had been published at a cost of Rs.81,900 for the conduct of 03 Certificate Courses without obtaining the approval of the University and the concurrent of the University Grants Commission in terms of the instruction in paragraph 5(c) of the Institute of Indigenous Medicine Ordinance, the expenditure incurred thereon was observed as a fruitless expenditure.
- (c) Ten Lectures and Practical hours had been assigned for 04 months to a Lecturer who had obtained Sabbatical leave from May of the year under review and she had attended to academic work only for 05 hours. A sum of Rs.539,634 had been paid as salaries for that period.

#### **4.6 Resources of the Institute given to other Government Institutions**

---

Contrary to the instructions of the Public Enterprises Circular No.PED/12 of 02 June 2003, a person recruited to a post of Labourer had been released to the Ministry of Higher Education

and paid a sum of Rs.391,459 as salaries and allowances up to 31 December of the year under review.

#### **4.7 Personnel Administration**

---

Twenty nine vacancies existed in the total approved cadre as at 31 December 2014 and the services of 16 trainees had been obtained on the assignment basis.

#### **4.8 Motor Vehicles Utilization**

---

Deficiencies such as the incomplete maintenance of the Daily Running Charts, and Log Books relating to 04 motor vehicles of the Institute, non-maintenance of a Register of Fuel Orders, and the failure to enter the fuel adjustments properly and the number of kilometers run in the Daily Running Charts were observed.

### **5. Accountability and Good Governance**

---

#### **5.1 Action Plan**

---

The following observations are made.

- (a) The Annual Action Plan did not contain the Organization Structure, the approved cadre, and the staff available at present, the annual Imprests requirement plan, the budget, the Procurement Plan, and the Internal Audit Plan as specified in the Public Finance Circular No.01/2014 dated 17 February 2014.
- (b) Out of the 33 activities amounting to Rs.42,913,000 included in the Action Plan for the year under review, 22 activities including 14 activities of estimated value amounting to Rs.20,100,000 had not-been carried out while 05 infrastructure facilities development activities valued at Rs.5,897,184 which had not been planned had been implemented without the approval of the Board of Management.
- (c) The quarterly, half yearly and annual Performance Reports as specified in Sections 4.2.2 and 4.2.6 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 on Good Governance had not been prepared.

#### **5.2 Budgetary Control**

---

The approved provisions of 03 Recurrent Items amounting to Rs.204,915,000 had exceeded by Rs.8,783,463 or 4 per cent and the approved provisions of two Capital Items amounting to Rs.32,500,000 had exceeded by Rs.15,546,265 or 48 per cent. The entire provisions amounting to Rs.9,400,000 allocated to 05 other Capital Items had not been utilized and out of the provisions amounting to Rs.18,100,000 allocated to further 4 Capital Items, a sum of Rs.9,855,061 or 54 per cent had not been utilized. As such the budget had not been made use of as an effective instrument of management control.

**6. Systems and Controls**

---

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

- (a) Accounting
- (b) Budgetary Control
- (c) Fixed Assets Control
- (d) Stock Control
- (e) Advances
- (f) Procurement
- (g) Students' Academic Activities
- (h) Hotels Administration
- (i) Motor Vehicles Control