

Institute of Indigenous Medicine - 2015

The audit of financial statements of the Institute of Indigenous Medicine Affiliated to the University of Colombo for the year ended 31 December 2015 comprising the statements of financial position as at 31 December 2015 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) 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, 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub- section 111 of the Universities Act, No.16 of 1978 give 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 2015 and its financial performance and cash flows for the year 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) The motor car costing Rs.1,250,000, its accumulated depreciation that had been depreciated up to Rs.854,167 had been written- off from accounts in the preceding year without being disposed. However, this asset belonged to the Institution up to the year under review.
- (b) Adjustments had not been made for cost and accumulated depreciation relating to the financial result after disposing relating to 50 units of assets disposed in the year under review.

2.2.2 Unexplained Differences

Even though a difference amounting to Rs.16,643,901 existed in comparing between the cost of fixed assets stated in the financial statements and the cost of the Register of Fixed Assets, it had not been identified and rectified.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though an air ticket fee amounting to Rs.79,000 of a lecturer who has gone abroad for a Post- Graduate Degree training on the financial sponsorship of the University Grants Commission had been paid by the Institution, it had not been recovered from the University Grants Commission even up to October 2016.
- (b) Action had not been taken up to date to settle unpaid examination fees amounting to Rs.151,465 for the academic staff and the non- academic staff for examination activities for the years 2014,2015.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations

Non-compliance

- | | |
|--|---|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulations 507(1) and 756 | Even though all assets of the Government should be verified annually by Boards of Survey, the Annual Stock Survey had not been conducted in respect of library books valued at Rs.25,865,542 and 503 units of Inventory Goods of Rajagiriya Male Hostel. |
| (ii) Financial Regulations 757(2) (a) and (b) | Even though the changes, reasons caused in this regard and with recommendations identified in the Survey should be presented to the Chief Accounting Officer within three months from the date of commencement of the Survey of Goods and a copy of A66 Form should be sent to the Auditor General by posting the decisions of the Chief Accounting Officer in this Form, action had not been taken as such in respect of 81 deficits of goods and 116 surpluses of goods stated in the Survey Report as at 31 December 2015. |
| (b) Public Finance Circular No.01/2014 of 17 February 2014 | Information that should be included in the Annual Action Plan in terms of the circular had not been included. |
| (c) The Chapter No.4.2.2 of Public Enterprises Circular No.PED/12 02 June 2003 | Even though action necessary to revise the relevant plans and the budget should be taken by certifying the actual performance by inquiring the Corporate Plan, the budget and the performance from time to time by the Board and Monthly Performance Reports should be presented to the Staff Meeting, action had not been taken in compliance with it. |
| (d) Treasury Circular No.IAI/2002/02 of 28 November 2002 | A Register of Assets on Computer and Accessories had not been maintained with the particulars specified in the circular. |

3. Financial Review

3.1 Financial Results

The financial result for the year under review had resulted in a deficit of Rs.21,218,671 as compared with the corresponding deficit of Rs.9,425,582 thus, a deterioration of Rs.11,793,089 was observed. The changes made to the policies relating to accounting of amortization had been the main reason for this deterioration.

In analysing the financial results of the year under review and of 04 preceding years indicated a continuous financial deficit. However, after making adjustments to personnel emoluments, depreciation on non- current assets and taxes paid to the Government, the deficit indicated an advantageous condition and it indicated a continuous improvement. Accordingly, the contribution as at the end of the year under review had been a sum of Rs.71,366,732.

4. Operating Review

4.1 Performance

The Institution of Indigenous Medicine had been established in the year 1980 for the achievement of the objectives of conducting teaching and research for the dissemination of knowledge and promotion relating to the enhancement of conditions of Ayurveda, Unani and traditional medical systems in Sri Lanka. The following matters were observed on the achievement of the performance.

- (a) Even though powers had not been entrusted to the Institution to conduct Post-Graduate Diploma courses in the Institute of Indigenous Medicine Ordinance No.07 of 21 December 1997, Post- Graduate Diploma courses had been conducted from several years by the Institution without amending the Constitution.
- (b) The registration of students for the Postgraduate Degree: Doctor of Medicine in Ayurveda [M.D. (Ayu)] of the Division of Post Graduate Studies from the year 2010 to the year 2016 had been gradually reduced each year from 36 students to 16 students and the number of students who have not completed the course out of the registered students had been increased from 8 per cent to 42 per cent.
- (c) It was observed that the average of the percentage of failure in examinations out of the students participating for Ayurveda Medical Courses of the Institute of Indigenous Medicine had been about 37 per cent.
- (d) In examining the data of the graduated students of five years, the number of students who have passed the Ayurveda Degree out of the graduated students had been decreased by 61 per cent in the year 2015, in comparing with the year 2011.
- (e) Ten supplementary examination sessions had been conducted from the academic year 2004/2005 to the academic year 2012/2013 for the field of Ayurveda and the number of students appeared for supplementary examinations out of the total number

of students appeared for Ayurveda examinations conducted in the year 2015 had been 27 per cent. Twenty- two per cent appeared supplementary examinations had again failed the examination.

- (f) Seven supplementary examinations had been conducted from the academic year 2006/2007 to the academic year 2012/2013 for the field of Unani in the year 2015 and the number of students appeared for supplementary examinations had been 14 per cent out of the total number of students appeared for Unani examinations conducted in the year 2015.
- (g) The Action Plan had been prepared for the execution of 56 subsidiary activities under 7 fundamental activities and the Institution had been failed to execute 24 activities in the year 2015 of which, the estimated value amounting to Rs.20 million. The value of activities not executed had represented as 27 per cent out of the estimated value.

4.2 Management Activities

The following observations are made.

- (a) It was observed that practical training activities are conducted by temporarily installing the relevant equipment in the premises of the Information Technology Centre due to not allocating suitable space to install medical equipment used in practical activities of medical students.
- (b) Even though bank reconciliation statements had been certified by the Chief Accountant, instances where proper attention had not been paid on errors occurred in posting in the cash book and in preparing bank reconciliations were observed. It was indicated that taking action without sufficient attention could cause in the occurrence of financial frauds and corruption and special attention should be paid in this regard.

4.3 Operating Activities

The following observations are made.

- (a) The machine purchased by payment of a cost of Rs.1,280,000 in the year 2012 with the purpose of manufacturing and selling drugs in addition to students' studies had not been utilized for the relevant function even up to October 2016.
- (b) Five machines purchased for a sum of Rs.376,700 in the year 2014 for Unani Medical Studies had remained idle even up to October 2016 due to not purchasing other necessary equipment to operate those machines.

5. Accountability and Good Governance

5.1 Action Plan

The Institute of Indigenous Medicine consists of two Sections as Ayurveda and Unani and each Section consists of 8 separate Departments. Even though the Action Plan should be

prepared aiming the targets of each Section and the Departments it had not been so prepared. The objective of preparing the Action Plan had not been achieved due to not including the process occurring in the Institution through Sections.

5.2 Procurement Plan

The following observations are made.

- (a) Purchases amounting to Rs.7,531,603 for machines, furniture- office equipment- other and computer equipment exceeding the approved provision.
- (b) Laboratory equipment valued at Rs.9,812,460 that had been included in the Procurement Plan 2014 had been purchased by provisions of the year 2015 and action had not been taken to include in the Procurement Plan 2015.
- (c) Eighty beds and the necessary goods valued at Rs.2,128,536 for the Moragasmulla Girls Hostel Project without obtaining approval of the Technical Evaluation Committee by preparing specifications and conference equipment valued at Rs.2,021,600 had been purchased in the year 2015 without including either in the Action plan or in the Procurement plan for the Third International Conference.

5.3 Procurement and Contract Process

The following observations are made.

- (a) Even though the estimate of the Institution had been a sum of Rs.126,182 for the “Project of Providing Electricity for the Air Conditioning System” due to not preparing the engineering estimates accurately and the contract had been awarded to the bidder who presented the minimum price amounting to Rs.135,720, it had been rejected by him and payments amounting to Rs.342,480 had been made without obtaining approval exceeding the 10 per cent limit for subsidiary work relating to 4 other construction contracts.
- (b) Quotations had been called in the year 2016 under the National Competitive Quotations to a sum of Rs.6,365,796, exceeding 59 per cent than the estimated value for the project of Renovation of the Playground estimated at a sum of Rs.4,000,000 in the year 2015.
- (c) The animal shed of which, the estimated value amounting to Rs.200,000 not operated by including in the Action Plan in the year 2014 had not been completed even up to 17 February 2016 and equipment valued at Rs.1,161,700 had been purchased on 26 November 2015.
- (d) Two projects which had not been included in the Action Plan 2015 had been awarded and implemented without the approval of the Board of Management to a sum of Rs.734,080, the price excluding the Value Added Tax calling it an emergency.

6. 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 Systems and Controls

Observations

- | | |
|------------------------------------|---|
| (a) Procurement Activities Control | (i) Not planning the system in order to occur co- ordination between the divisions and the management in deciding the quantity and size of the purchase, the period of the purchase, the suitable space necessary for installation. |
| | (ii) Not maintaining and updating the Procurement Plan and not reporting in a proper format in opening bids and in reporting. |
| (b) Contract Administration | Not identifying proper specifications and not properly conducting the determination of time, not identifying the competencies of the bidder in awarding bids, not properly conducting supervision of work, not paying attention by the management on the frequent occurrence of contract variances. |
| (c) Assets and Stocks Control | Not completely documenting the assets and the inventory goods, not properly entrusting the survey functions to the Boards of Survey, not sufficiently providing necessary instructions, not properly completing the forms. |
| (d) Accounting | Not accurately classifying transactions and not comparing data of the financial statements with the relevant schedules. |
| (e) Vehicle Control | Not taking action in terms of provisions of the Financial Regulations and Circulars, not maintaining necessary books and not updating and maintaining. |

(f) Operating Control

Not maintaining student data by the Institution so as to enable the evaluation of the students' performance.