

Institute of Biochemistry, Molecular Biology and Biotechnology affiliated to the University of Colombo – 2016

The audit of financial statements of the Institute of Biochemistry, Molecular Biology and Biotechnology affiliated to the University of Colombo for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 Section 17 of the Institute of Biochemistry, Molecular Biology and Biotechnology Ordinance No. 01 of 2003 and Sub-section 108(1) of the Universities Act enacted under Sub-section 107(5) and Section 18 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 preparation 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 the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute'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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. 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 Biochemistry, Molecular Biology and Biotechnology affiliated to the University of Colombo as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

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 02

The interest income of Rs.2,220,982 received in cash for the year 2016 had been shown under operating activities instead of being shown as a cash inflow under investment activities in the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard 07

As the useful life of non-current assets had not been revised annually, the Property, Plant and Equipment costing Rs.52,662,824 had still been in use despite being fully depreciated. As such, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

Prior year adjustments amounting to Rs.942,854 shown in the statement of financial performance, had been adjusted under operating activities in the cash flow statement, and the prior year adjustments shown in the statement of changes in equity amounted to Rs.56,349. As such, the balancing of the financial statements had been questionable in audit.

2.2.3 Unexplained Differences

A difference of Rs.308,130 was observed when comparing the value for the acquisition of non-current assets in the year under review with the Register of Assets.

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

The following non-compliances were observed.

Reference to Law, Rules, and Regulations

Non-compliance

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| a) Sub-section 15(v) of Part 11 of the Universities Act, No. 16 of 1978 | Approval of the University Grants Commission should be obtained in respect of the courses conducted by the institutions of higher education, but approval had not been so obtained for 03 courses conducted in the year 2016. |
| b) Sections 3.1 and 3.2 of Chapter XX of the Establishments Code of the University. | Salaries and allowances totalling Rs. 7,623,341 had been paid without verifying the arrival of 05 employees in the academic staff of the Institute. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2016 had been a surplus of Rs.15,130,687, as compared with the corresponding surplus of Rs.3,613,509 for the preceding year, indicating an improvement of the financial result by a sum of Rs.11,517,178 for the year under review. The decrease in the other recurrent expenditure by a sum of Rs.7,947,535, and the increase in the income earned by a sum of Rs.3,993,424, had mainly attributed to the said improvement.

An analysis on the financial results of the year under review and 04 preceding years indicated that the surplus had improved with variances from the year 2012 up to the year 2016. Nevertheless, once the employee remuneration and depreciation on non-current assets had been adjusted to the financial result, the contribution of Rs.26,189,085 for the year 2012, had continuously improved up to Rs.58,912,652 by the year 2016.

3.2 Analytical Financial Review

According to the statement of financial position presented, the current ratio of the Institute in the year under review had been 7.8. However, as 49 per cent of the current assets is represented by short term investments and cash balances, it was observed that a significant amount of assets of the Institute had been retained in liquidity assets.

4. Operating Review

4.1 Performance

According to the information made available by the Institute, the main objectives of the Institute include: to produce postgraduates in line with local and international job market in respect of the Molecular Biology, and parallel areas, to contribute to the development of the nation by being a center of excellence in the field of bioinformatics, to establish a conducive

environment and a culture of solidarity, to earn by providing services and teaching for the well-being of the society by promoting social responsibilities, and good governance.

The following observations are made on the achievement of those objectives.

- (a) According to the Report, No. 38 of the Finance and Management Committee, dated 05 July 2016, provision amounting to Rs.500,000 had been made in respect of the short term training course on cell culture techniques, but the said course had not been conducted in the year under review.
- (b) In order to maximize the funds being generated through teaching and supply of services, strategies for strengthening the Business Promotion Unit had been introduced under Objective No. 04 in the Action Plan of the Institute. Activities such as, consultancy and legal advice, acquisition of capital assets, marketing the research findings, providing the services for diagnosing breast cancer, and mutation testing for breast cancer, had been shown thereunder, but only 02 researches had been conducted in the year. Researches on the identification of genetic mutations relating to breast cancer, had not been conducted for the year 2016. Accordingly, it was observed that the Institute had not taken adequate measures to achieve the objectives of the plan.
- (c) No student enrollments had been made after the year 2012 in respect of the course for the degree of MSc in Bioinformatics, and the contents of the subjects of the said course had been revised since the year 2015. From September 2015 up to 28 February 2017, the date of audit, 07 review meetings had been conducted thereon. The rules proposed for the courses had been drafted and presented to the Board of Academics, but the dates for recommending the courses had not been decided. As the commencement of the course had been delayed for a period of 04 years, the students expecting to follow the course had been deprived of the opportunity.

4.2 Management Activities

The following observations are made.

- a) Cash donations amounting to Rs.200,000 had been received from a private party in July 2015 so as to award gold medals for the merit students of the degree course in bioinformatics, and that amount had been invested in timely deposits in the year under review. The convocations for the aforesaid course had been held at the end of the year 2015, but no action had been taken to award gold medals to the merit students as expected, thus observing that the objective of the donors had not been fulfilled.
- b) Action had not been taken to identify and settle the debit balances totalling Rs.1,991,832 continued to exist over many years in 02 donation accounts under capital grants that had been spent.

4.3 Operating Activities

Capital grants valued at Rs.2,791,677 received from the Treasury for the improvement and rehabilitation of assets, had not been utilized for the intended purpose in the year under review; instead, the said sum had been credited to the Government grants account relating to the rehabilitation and improvement.

4.4 Staff Administration

Three posts remained vacant in the approved academic staff. Instead of taking action to fill those vacancies, a Lecturer had been appointed on contract basis for one of those vacant posts in the capacity of Senior Lecturer in respect of the course named MSc in Cellular and Molecular Immunology, and allowances totalling Rs. 678,796 had been paid from the recurrent provisions during the year 2016.

5. Accountability and Good Governance

5.1 Procurement Plan

A sum of Rs.9,520,000 had been received from the Treasury in the year under review for acquiring fixed assets. As the value of actual purchases made during the year under review amounted to Rs.6,120,257, it was observed that the purchases planned in accordance with the annual Procurement Plan of the Institute had not been made.

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 is needed in respect of the following areas of control.

<u>Areas of Systems and Controls</u>	<u>Observation</u>
a) Control of Stores	Failure to maintain stock books in an updated manner by conducting the annual Board of Survey properly.
b) Staff Administration	Failure to take action to fill vacancies and revise the approved cadre in accordance with requirements.
c) Accounting	Failure to maintain journal entries with respect to transfers between the accounts. Failure to prepare an accurate trial balance.