

Institute of Indigenous Medicine - 2016

The audit of financial statements of the Institute of Indigenous Medicine Affiliated to the University of Colombo for the year ended 31 December 2016 comprising the statements of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in net assets 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. A detailed report in terms of Sub-section 108(2) of the Universities Act, was issued to the Director of the Institute on 26 December 2017.

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 2016 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 Sri Lanka Public Sector Accounting Standards

In terms of Sri Lanka Public Sector Accounting Standard 7, if the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the Institution had not recognized in deficit the value of carrying amount of a class of assets decreasing by Rs.298,060 relating to the sports items in revaluation.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) According to the financial statements presented, 20 per cent should be depreciated for the Semi-Permanent Lecture Halls. However, the depreciations of the year had been understated by Rs.681,000 due to depreciations made at a rate of 5 per cent.

- (b) A sum of Rs.350,000 had been shown as contingent liabilities further in the financial statements for a case which had been concluded by paying compensations during the year under review.
- (c) Cash flow under the investment activities had been overstated by Rs.160,800 due to the value of Rs.45,823,265 incurred for the acquisition of fixed assets had been shown in the cash flow statement as Rs.45,984,065.
- (d) Even though the value of physical stock as at 31 December 2016 amounting to Rs.1,629,103, the stock value had been overstated by Rs.157,456 as a result of the book value had been shown as Rs.1,786,559 in the financial statements. The deficit of the Institution had been understated by Rs.157,456 due to the said stock which had been misplaced on 17 June 2016 had not been shown in the financial statements as an expenditure according to the concept on prudence.

2.2.3 Lack of Evidence for Audit

In the preparation of cash flow statement, a sum of Rs.11,605 had been adjusted as other adjustments to the cash flow generated from operating activities and the Institute had failed to present the adequate clarifications in that connection.

2.3 Accounts Receivable and Payable

Even though an air ticket fee amounting to Rs.79,000 of a lecturer who was proceeded abroad for a Post- Graduate Degree training on the financial sponsorship of the University Grants Commission had been paid by the Institution in the year 2012, it had not been recovered from the University Grants Commission even up to the year 2016.

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

The following non- compliances were observed.

Reference to Laws, Rules and Regulations

Non-compliance

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| (a) Financial Regulation 110 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | A Register on Losses and Damages had not been maintained. |
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- (b) Sections 4.2.2 and 4.2.6 of the Public Enterprises Circular No.PED/12 of 02 June 2003 . Even though the Sectoral Performance of the Unani, Ayurveda and Postgraduate Degree Sections had been evaluated by the Board of Management , the quarterly, half yearly and annual performance reports had not been furnished to the Line Ministry and the Department of Public Enterprises of the Treasury.
- (c) Guideline 7.4.1 of the Government Procurement Guidelines 2006. Bid evaluation should be undertaken expeditiously, leaving ample time to seek all the requisite formal approvals. However, period of 2 and half months and period of one month had been spent respectively for obtaining the approval of Technical Evaluation Committee and the Procurement Committee for purchase of laboratory equipment in the year 2015. Therefore, laboratory equipment valued at Rs.612,765 had been received in July 2016 and laboratory equipment valued at Rs.503,848 had not been received even in the year 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had resulted in a deficit of Rs.31,183,577 as compared with the corresponding deficit of Rs.21,218,671 thus, a deterioration of Rs.9,964,906 was observed. Even though ,the recurrent receipts of the year under review had been increased by Rs.25,000,000 , increase of academic services and administrative expenses by Rs.35,460,893 had mainly affected the above deterioration.

In the analysis of the financial results of the year under review and 04 preceding years, it had been indicated that a financial surplus in the year 2014 and deficiency in the years 2012,2013 ,2015 and 2016. However, after making adjustments to personnel emoluments, depreciation on non- current assets, the contribution of Rs.147,242,382 in the year 2012 had been increased up to Rs.256,369,230 by the year 2016.

4. Operating Review

4.1 Performance

The Institute of Indigenous Medicine affiliated to the University of Colombo 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 observations are made on the performance of the Institution.

- (a) In the examination of the enrollment of students to the Institution during the previous 6 years, it was observed that 153 students had been enrolled in deficit relating to that period, out of the 1300 students who were with facilities to enroll according to the resources available in the University and approved by the University Grants Commission.
- (b) In the examination of the examination results relating to 5 academic years, percentage of failure in examinations out of the students appeared for the examinations had been increased with the seniority of the students and details are given below.
 - (i) The percentage of failure in examinations was 39 per cent and 25 per cent respectively out of the students who appeared for the examinations for 7 examination sessions due in the year 2016 for the Ayurveda Medical Degree and Unani Medical Degree from the academic year 2010/2011 to the academic year of 2014/2015.
 - (ii) The new syllabus had been introduced in the year 2010 and additional 9 examinations had been conducted in the year 2016 for the students who failed each examination of the Ayurveda Medical Degree and Medical Unani Degree Courses under the old syllabus. Out of the number of students appeared for the said examinations, the percentage of failure in examinations was 51 per cent and 47 per cent respectively.

4.2 Management Activities

A sum of Rs.101,000,000 had been received from the Treasury in December 2016 for the acquisition of a land for the boys hostel proposed to construct with a view to provide hostel facilities required for the students in the Institute of indigenous Medicine. A sum of Rs.124,280 had been spent in the years 2015 and 2016 from the fund of the Institution for publishing paper advertisements, checking extracts and valuations .However, that money had been returned to the General Treasury on 10 March 2017 due to failure to purchase a land during the year 2016 as a result of unsuccessfulness of the procurement procedure.

4.3 Procurement and Contract Procedure

The following observations are made.

- (a) Even though a formal agreements should be entered into on a contract for works exceeding Rs.500,000 according to the Guideline 8.9.1(a) of the Procurement Guidelines 2006, action had not been taken accordingly in respect of 13 contracts totalled Rs.23,434,150 implemented in the year 2016 by the Institution.
- (b) Expenditure amounting to Rs.5,021,953 had been incurred exceeding the provision of Rs.4,000,000 which had been estimated relating to 3 procurements due to purchasing fixed assets contrary to the amounts mentioned in the Procurement Plan.
- (c) Provisions amounting to Rs.23,000,000 had been made for 15 Projects during the year under review for rehabilitation and improvement of capital assets . Even though activities of 9 Projects had been completed by spending Rs.9,174,268 from that provision in the year under review and activities of one Project was being carrying out , activities of 5 Projects which the provision of Rs.9,161,800 had been allocated had not been commenced even by 31 December 2016.
- (d) A sum of Rs.23,434,150 had been spent for the rehabilitation and improvement of capital assets in the year 2016 and out of that a sum of Rs.14,259,882 existed for the continuous works in the year 2015. The activities of the Projects which had been spent Rs.5,718.125 out of that had not been completed even by 31 December 2016.

- (e) Eleven Projects relating to rehabilitation and improvement of capital assets which the estimated value amounted to Rs.8,720,000 included in the Action Plan of the year 2015 had not been implemented in the said year. Even though provisions allocated for that purpose in the year under review, that Project had not been completed even up to the end of the year under review.
- (f) Even though provision for Rs.3,000,000 had been made in the year 2015 for the purchasing of air conditioners, as a result of orders valued at Rs.4,112,400 had been issued for purchasing 27 air conditioners during the year 2015, a sum of Rs.1,112,392 had been spent from the provisions provided in the year under review.

4.4 Utilization of Funds

A balance of Rs.4,814,679 was remained in the Capital Grant Account as at 01 January 2016 as the Government Capital Grants provided had not been utilized due to the purchasing had not been done in terms of the Procurement Plan. Capital Grants amounting to Rs.157,000,000 had been received for the year under review and a sum of Rs.45,823,265 had been spent for purchasing during the year. Accordingly, the unutilized balance as at 31 December 2016 amounted to Rs.115,991,414.

5. Accountability and Good Governance

5.1 Action Plan

The Action Plan for the year 2016 in terms of the Public Finance Circular No.01/2014 dated 17 February 2014 had been presented in December in the year under review and the approval of the Board of Management had not been obtained in that connection.

5.2 Procurement Plan

The following observations are made.

- (a) In terms of Guideline 4.2.1 (b) of the Government Procurement Guidelines 2006, Procurement activities envisaged at least for a period of three years shall be listed in the Master Procurement Plan by all Government Institutions. However, the Institution had not prepared a Master Procurement Plan.

- (b) It was observed that action had not been taken according to the time scheduled in terms of the detailed Procurement Plan prepared for the year under review.
- (c) Implementation of the un-fulfilled procurements relating to the year 2015 during the year 2016, it had not been shown as continuous work in the Procurement Plan. As a result of that, the expected targets and continuous condition could not be identified separately through the provisions allocated for the year under review.

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 system & Controls -----	Observations -----
(a) Assets Control	<ul style="list-style-type: none"> i Deficiencies in accounting of revaluation of assets and the Register of Fixed Assets had not been updated. ii Necessary steps had not been taken on the security of assets.
(b) Accounting	<ul style="list-style-type: none"> i. Amortizations had not been calculated accurately. ii Accounts had not been prepared according to the Sri Lanka Public Sector Accounting Standards .