

## **Homeopathy Medical Council – 2016**

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The audit of financial statements of the Homeopathy Medical Council 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 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council’s preparation and fair presentation of 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 Council’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. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Homeopathy Medical Council as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

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

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The following non-compliances were observed.

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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In terms of Section 21 (f) of the Standard, the policy of provision on gratuity of the Council had not been disclosed in the financial statements.

##### **(b) Sri Lanka Public Sector Accounting Standard 08**

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The necessary disclosures had not been made in the financial statements in respect of 5 cases on trial against the Council.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Purchase of drug containers in the year under review and the preceding year had been accounted as a total expenditure instead of debiting to the consumable stocks. As such, the expenditure of Rs.504,000 relating to the year under review and the value of the consumable stock as at 31 December 2016 had been understated by Rs.633,000 in the financial statements.
- (b) Even though the provision for gratuity relating to 19 employees amounted to Rs.597,104, provision of Rs.376,884 had been made instead. As such, the provision for gratuity had been understated by Rs.220,220 in the financial statements.
- (c) A sum of Rs.195,900 that should be credited to the current account of the Council in the year 2014 as examination fees had been credited to a current account of the Ministry of Health, Nutrition and Indigenous Medicine. As that income had been credited to the state revenue, it had been shown under cash and cash equivalents in the financial statements without taking further action to write off.

- (d) Annual depreciation for the buildings of the Council valued at Rs.2,812,738 as at 31 December 2016 had not been computed and brought to account.

### **2.2.3 Unexplained Differences**

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According to the trial balance prepared as at 31 December 2016, the Government recurrent grants amounted to Rs.12,663,330. However, according to the statement of financial performance prepared for the year under review, that value was Rs.12,596,733 thus observing a difference of Rs.66,597.

### **2.2.4 Lack of Evidence for Audit**

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The balances of 8 Items of Expenditure payable as at 01 January 2016 totalled Rs.192,156 and out of those, the balances of 6 Items of Expenditure totalled Rs.594,126 as at 31 December 2016. The relevant ledger accounts in the General Ledger had not been maintained in a manner to confirm the accuracy of the expenditure, prepaid and payable expenditure relevant to the year.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Council for the year under review had been a deficit of Rs.422,515 as against the surplus of Rs.271,598 for the preceding year, thus indicating a deterioration of Rs.694,113 in the financial result of the year under review as compared with the preceding year. Even though the total expenditure for the year under review had increased by Rs.1,288,106 as compared with the preceding year, the increase in Government recurrent grants by only Rs.570,610 had mainly attributed to the above deterioration.

An analysis of the financial results for the year under review and the four preceding years revealed a continuous deficit from the year 2012 to the year 2014. The deficit of Rs.29,305 in the year 2012 had increased to Rs.170,636 by the year 2014. Even though there had been a surplus of Rs.271,598 in the year 2015, it had again converted into a deficit of Rs.422,515 in the year 2016. However, in readjusting the employees' remuneration and depreciation for non-current assets to the financial result, the contribution which amounted to Rs.4,517,886 in the year 2012 had improved to Rs.9,951,274 between 6 per cent and 93 per cent with fluctuations in the year 2015. Even though the contribution had increased to Rs.10,015,998 in the year 2016, its improvement had been only one per cent as compared with the year 2015.

### **3.2 Legal Action instituted against the Council**

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Cases had been filed against the removal of a Doctor and a labourer from service in the Medical Council claiming compensations of Rs.3 million and Rs.2 million each respectively. Moreover, two Doctors had filed 2 cases against the Council requesting for the abolition of appointments and registrations made after the payment of arrears in salaries and dissolution of the Medical Council.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

According to the Homeopathy Act, No. 7 of 1970,

- The regulation, control, promotion and encouragement of the practice of medicine according to homeopathy.
- The promotion and encouragement of the study of and research in homeopathy and the establishment and maintenance of a Homeopathy Medical College.
- Taking steps for development or encouragement of measures for the investigation of diseases and for improvement of public health according to homeopathy.
- The regulation and control of homeopathic institutions and the regulation and control of manufacture, importation, sale and distribution of homeopathic medicine, drugs and other preparations are the objectives of the Council.

The following matters were observed during the course of an examination of the achievement of the above objectives during the year under review.

- (a) Action had not been taken for the achievement of the main objectives such as the regulation, promotion and encouragement of the practice of medicine according to homeopathy and the promotion and encouragement of the study of and research in homeopathy.
- (b) Instances in which action in accordance with the Action Plan prepared for the year under review had not been taken were as follows.
  - (i) Even though it had been planned to conduct 21 mobile clinics, out of them, 11 clinics had not been conducted.
  - (ii) The plans such as the conduct of 3 school programmes for the Awareness of Homeopathy Medical System, the conduct of 2 seminars for the officers of the Ministry of Health and all Institutions and the commencement of a Web Home Page had not been implemented.
  - (iii) Even though the conduct of 02 Workshops for the evaluation of the services and experience of Homeopathy Doctors had been planned, those Workshops had not been conducted.

- (iv) Even though plans had been made for activities such as the introduction of an approved specific administrative procedure for the Homeopathy Medical Council, the formulation of regulations and publishing in the Gazette, the formulation of bylaws for the production of Homeopathy drugs and ensure availability in the market, the buildup of funds for establishment of Homeopathy Drug Stores and pharmacies and the import and distribution of stocks of drugs, none of the activities had been executed even by the end of the year under review.

## **4.2 Management Activities**

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The following observations are made.

- (a) Even though a building had been constructed in the year 2008 for the commencement of a Homeopathy Medical College and the furniture and equipment had been supplied in the year 2009, the academic activities of that had not been commenced even by 19 September 2017 as steps had not been taken for the formulation of the legal framework relating to the commencement of its academic activities. Accordingly, the fixed assets costing Rs.1,199,254 purchased and the building related thereto had remained idle over a period of 06 years.
- (b) Even though decisions had been taken for the formulation of a Code of General Orders for the 7 presently existing Medical Clinics at the meeting of the Interim Control Committee held on 05 January 2012, for obtaining the approval of posts for 14 new clinics and for the publication of rules and requirements for the Homeopathy Education Institute in the Gazettes at the meeting of the Interim Control Committee on 29 August 2013 and for further expansion of the Homeopathy Orders 1981 on the manufacture, import and distribution of Homeopathy Drugs and to formulate adequate rules and regulations at the meeting of the Interim Committee on 08 January 2014, those decisions had not been implemented even by 19 September 2017, the date of audit.

## **4.3 Identified Losses**

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One hundred and seventy thousand units of small medicine containers and 172,000 units of medium size medicine containers had remained as at 31 December 2016 due to purchasing without properly identifying the requirement. Adequate standard storing facilities had not been available at the premises of the Council building. As such, the medicine containers had not been stored in a protective and sterile manner and the lids had been damaged and unclean. Accordingly, it was observed at the physical verification carried out on 19 September 2017 that nearly 50,500 medicine containers to the value of approximately Rs.92,750 had become unusable.

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

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### **5.1 Internal Audit**

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In terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, an Internal Audit Unit had not been established for the Council and an internal audit had not been carried out even by the Internal Audit Unit of the Ministry of Health, Nutrition and Indigenous Medicine.

### **5.2 Budgetary Control**

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In terms of Section 5.2 of Public Enterprises Circular No. PED 12 of 02 June 2003, action had not been taken to prepare an estimated budget on the income and expenditure of the Council for the year under review and to make use of it as an effective instrument of management control.

### **5.3 Unresolved Audit Paragraphs**

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The Committee on Public Enterprises had directed at the meeting held on 15 September 2010 that the regulations of the Homeopathic Medical Council should be updated to be compatible with the current conditions. The New Homeopathy Act No.10 of 2016 had been enforced from 29 July 2016 and the new Medical Council had been appointed in October 2016. However, the Directives of the Committee on Public Enterprises had not been implemented even by 31 December 2016.

### **5.4 Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the maintenance of accounting activities together with the primary subsidiary books, General Ledger and Journal entries.