

Institute of Biochemistry, Molecular Biology and Biotechnology – 2017

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 2017 comprising the statement of financial position as at 31 December 2017 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 gives 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 2017 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 Accounting deficiencies

The following observations are made.

- (a) Due to the interest amounting to Rs.363,466 received for the demand deposits in the year under review had been credited to the demand deposit account instead of crediting to the income, the balance of the demand deposit investment account at the end of the year and the interest income had been understated by that amount.
- (b) A sum of Rs. 599,295 interest income receivable relating to 08 Fixed Deposits valued at Rs. 18,000,000 and 02 Term Deposits valued at Rs.10,000,000 for the year under review had not been accounted.
- (c) In preparing the cash flow statement, amounting to Rs.4,591,309 fixed deposit interest income received in cash relating to the year under review, had not been shown as a cash inflow under the investment activities by deducting from the profit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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| (a) Sub-section 15(V) of Part 11 of the Universities Act, No. 16 of 1978 | Even though the approval of the University Grants Commission should be obtained in respect of the courses conducted by the Institutions of Higher Education, but the approval had not been so obtained for the degree of Master of Science in Molecular Life Sciences and the degree of Master of Science in Cellular and Molecular Immunology which is currently conducted by the institute. |
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| (b) | Financial Regulation 371(2) of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No.03/2015 of 14 July 2015. | Even though advances should be settled immediately after completing the advanced activity, 32 days to 300 days had been spent in settling advances totalling Rs.1,126,815 given in 32 occasions for supplies and services rendered in the year under review. |
| (c) | Sections 3.1 and 3.2 of Chapter XX of the Establishments Code of the University. | Salaries and allowances totalling Rs.15,086,947 been paid without verifying the attendance of 06 employees in the academic staff of the Institute in the year under review. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2017 had been a deficit of Rs.5,602,236, as compared with the corresponding surplus of Rs.15,130,687 for the preceding year, thus indicating a decrease of the financial result by a sum of Rs.20,732,923 for the year under review as compared with the preceding year. The increase in the employee remuneration expenditure by amounting to Rs.6,185,876, and the increase in the expenditure for supplies by amounting to Rs.12,837,418, had been mainly attributed to the above deterioration.

In analyzing the financial results of the year under review and 04 preceding years, there had been a surplus from year 2013 up to year 2016 and a deficit in year 2017. However, once the employee remuneration and depreciation on non-current assets and government tax paid had been adjusted to the financial result, though the contribution amounting to Rs.36,348,650 for the year 2013 had been continuously improved and amounted to Rs.58,912,625 in the year 2016, it had been decreased by 20 per cent as Rs.48,258,013 in the year 2017 with compared to year 2016.

4. Operating Review

4.1 Performance

4.1.1. Operation and Review

The following observations are made.

- (a) Even though, the target was to admit 45 students for 3 courses in the year under review, only 11 students for 02 courses had been admitted. The Director had informed to the audit that failure to conduct the degree of Master of Science in Molecular Life Sciences and increasing of course fee of the degree of Master of Science in Cellular and Molecular Immunology from Rs.500,000 to Rs.600,000 had been reasoned for decreasing the number of students.

- (b) Even though it had been planned to start new three postgraduate degree course in the Action Plan prepared for the year under review, any new degree had not been started in year 2017.

4.2 Management Activities

The following observations are made.

- a) As per the decision of the 39 Board of Management meeting dated 11 October 2007, Institute Development Fund had been established for the use of development activities of the institute and it had been stated that 10 per cent of the income from all courses should be transferred to this fund. However, any amount had not been transferred to this fund in the year 2017 and attention had not been paid even preparing the course budget relating to the year under review. The balance of that account as at the end of the year under review amounted to Rs.5,929,055.
- b) Even though proposed legal drafts for the courses had been submitted to the Study Board on 03 January 2018 by conducting a review in 2015 on subject content of the degree course in Bioinformatics for which no students had been admitted after 2012, re-startable time period of the course had not been decided. Therefore the students, who expect to follow this course which had not been held for more than 05 years, had missed the opportunity for that.

4.3 Fund Utilization

There had been a balance of Rs.22,074,607 of three funds: Institute Development Fund, Endowment Fund and Assets Replace Fund as at 31 December 2017 and these funds had not been utilized for the achievement of expected objectives in the year under review.

5. Sustainable Development

5.1 Achieving Sustainable Development Goals and Targets

Even though it is required to take actions regarding the Sustainable Development by all public institutions as per the Letter No.NP/SP/SDG/17 dated 24 August 2017 issued by the Secretary to the Minister of the Ministry of National Policies and Economic Affairs and United Nations 2030 “Agenda”, Institute of Biochemistry, Molecular Biology and Biotechnology had not been aware on how should be implemented regarding the activities which comes under own scope relating to the year under review.

6. Accountability and Good Governance

6.1 Procurement

The following observations are made regarding the procurement for purchasing Elisa Plate Reader, cost of Rs.4,000,000.

- (a) As per the section 6.2.2 of the Procurement Guideline even though minimum bid calling period in National Competitive Bidding is 21 days, it was observed that reasonable and maximum opportunity had not been given to the eligible interested parties to participate for the procurement due to bid calling period had been limited to 10 days for the procurement of purchasing Elisa Plate Reader valued at Rs.4,000,000.
- (b) As per the Guideline 8.9.1 and 5.4.8 of the Procurement Guideline, it had not been entered into an agreement and the Performance Bond had not been submitted at the time of issuing the purchase order No.2017/08/15 dated 29 August 2017. After the notice made by the institute, performance bond had been submitted on 27 November 2017 that is 3 ½ months delay.
- (c) Even though the supplier had agreed to supply this machine within the period of 06 weeks to 08 weeks after giving the order, the machine had been handed over to the institute on 09 April 2018 with a delay of 23 weeks. As per the order, even though it is required to charge a demurrage charge of amounting to Rs.400,00 from the supplier for this, it had not been so charged.

6.2 Internal Audit

Internal audit of the institute had been done by the Internal Audit Unit of the University of Colombo. As per the audit plan submitted relating to the year 2017, even though it had been planned to audit 13 subjects of the institute in the year 2017 only one audit query had been issued on one subject of vehicle usage. Accordingly it was observed that adequate internal audit had not been occurred.

6.3 Budgetary Control

When comparing the actual figures with the budgeted figures, expenditure on goods supplied by 112 per cent and expenditure on maintenance activities by 106 per cent had been varied.

6.4 Unsolved Audit paragraphs

04 ledger accounts had been maintained for capital grants spent and debit balances of amounting to Rs.1,912,598 and Rs.79,234 were shown in two ledger accounts thereof.

7. **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.

Areas of Systems and Controls	Observation
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(a) Budgetary control	Budget had not been used as an effective management controll.
(b) Funds Management	Funds had not been used for achieving the expected objectives.
(c) Procurement	Attention had not been paid for the Procurement Guideline 2006 and Procurements had not been completed in the precise dates.
(d) Conducting courses	Decrease in Recruitment of students and decrease in income from courses.