

# **Institute of Biochemistry, Molecular Biology and Biotechnology Affiliated to the University of Colombo – 2018**

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## **1.1 Qualified Opinion**

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The audit of the financial statements of the Institute of Biochemistry, Molecular Biology and Biotechnology Affiliated to the University of Colombo for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **1.2 Basis for Qualified Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to

enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

## **1.6 Accounts Receivable and Payable**

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### **1.6.1 Advances**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Although payments should be made after the supply of goods and services, the sums pertaining to the renovations totalling Rs.408,413 had been obtained as advances at the beginning of such renovations and retained by the officers in 11 instances.	Payments are made only after the completion of renovations. Nevertheless, as it is necessary to make payments to the contractor immediately after the completion of renovation, advances are obtained and retained in the custody of the officers in our Institute.	In case of services, payments should be made on completion of the relevant task.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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 The following observations are made.

Reference to Laws, Rules and Regulations -----	Non-compliance -----	Comments of the Management -----	Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.  ----- Financial Regulation 371 and State Finance Circular No.03-2015 dated 14 July 2015.	(i) Although the grant of advances should be limited to the Staff Officers, advances totalling Rs.213,906 had been granted to 08 non-staff grade officers in 15 instances.	Action was taken to correct the internal control system in order to limit the grant of advances only to the Staff Officers.	Action should be taken in accordance with the provisions in Financial Regulations and Circulars.
	(ii) Although advances should be settled immediately after the completion of the purpose for which it is granted, a period ranging from 1 ½ months to 11 ½ months had been delayed for the settlement of advances totalling Rs.1,497,569 obtained in 26 instances.	Since expected period for the completion of the renovations has exceeded, excess period had to be taken to settle advances. Action was taken to make compulsory the settlement of advances within 14 days.	Action should be taken in accordance with the provisions in Financial Regulations and Circulars.
	(iii) In granting advances, the maximum amount should be limited to Rs.100,000, whereas advances ranging from Rs.188,575 to Rs.397,900 had been granted in 03 instances.	Since there was no other option to make that payment, advances had been granted in the above three instances. Nevertheless, steps was taken to prevent from making such payments henceforth	Action should be taken in accordance with the provisions in Financial Regulations and Circulars.

- as per the instructions  
of the Audit  
Committee.
- (b) Sub-section 15(v) of Part 11 of the Universities Act, No.16 of 1978
- Although approval of the University Grants Commission should be obtained for the courses to be conducted by the Higher Education Institutions, approval had not so been obtained in respect of 05 courses conducted by the Institute at present.
- The Statutory Committee of the University of Colombo had reviewed the by-law relevant to these courses in several times and action is being taken to forward them to the Council of the Colombo University seeking approval.
- Action should be taken in accordance with the Universities Act.
- (c) Sections 3.1 and 3.2 of Chapter XX of the Establishments Code of the Universities.
- Without being confirmed the attendance of 09 members of the Academic Staff of the Institute, salaries and allowances of Rs.19,224,085 had been paid.
- It is further informed that the members of the academic staff perform their duties in accordance with the approved work norms and timetables under the supervision of the Director of the Institute. Since this institution is an institute affiliated to the University of Colombo, the procedure adopted by the University in this connection is followed by the Institute, as well.
- Action should be taken in accordance with the Establishments Code of the Universities.
- (d) State Accounts Circular No.IA/2002/02 dated 28 November 2002.
- A separate Register of Fixed Assets had not been prepared and maintained in the prescribed format for the computer, accessories and software.
- Action will be taken to prepare a separate Register of Fixed Assets for computers and accessories from the year 2019.
- Action should be taken in accordance with the circular provisions.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Institute in the year under review had resulted in a deficit of Rs.4,847,672 as compared with the corresponding deficit of Rs.5,602,236 for the preceding year, thus observing an improvement of Rs.754,564 in the financial result.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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According to the Board of Survey reports of the year 2017, although recommendations had been made to dispose of 31 unusable items worth Rs.914,800, relevant steps had not been taken even by the end of the year under review.	Due to the shortage of the staff and delays occurred in fixing prices for those items by examining them by the experts, disposal of the above items was delayed.	The recommendations of the Board of Survey should be implemented within the relevant period.

### 3.2 Underutilization of Funds

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Audit Observation	Comments of the Management	Recommendation
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Sums totalling Rs.12,120,552 existed in the Donation Fund and Assets Replacement Funds as at 31 December of the year under review and these funds had not been used for the intended objectives since a period of 02 years.	Initial arrangements for the award of Professor Eric Karunanayaka Memorial Scholarships had been made from the Donation Fund and having called for bids on 03.09.2018 for the purchase of Real Time PCR machine worth Rs.4,025,000 from the Assets Replacement Fund within the year ended on 31.12.2018, a purchasing order had been placed on 03.12.2018. Money had been paid for the above machine on 11.02.2019. Hence, it cannot be accepted that the Assets Replacement Fund had not been used in the year 2018.	Optimum utilization of the funds should be ensured.

### 3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>In terms of Guideline 2.8.1 (a) of the Procurement Guidelines, no member should serve in both the Procurement Committee and the Technical Evaluation Committee. Nevertheless, it was observed at the audit test check that a member of the Procurement Committee of the Institute had been appointed to the Technical Evaluation Committee pertaining to the purchase of 04 air conditioners worth Rs.434,240.</p>	<p>Measures were taken to prevent from making such appointments henceforth.</p>	<p>The Procurement Guidelines should be complied with.</p>

### 3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved cadre of the Institute was 47 of which vacancies in 15 posts could be observed as at 31 December of the year under review.</p>	<p>Out of the vacancies existed in the non-academic staff, applications have been invited for the post of Management Assistant (Book Keeper) and Management Assistant (Shroff) and recruitments will be made in accordance with the scheme of recruitment. For the vacant 04 posts of Management Assistant, and the post of Technical Officer, name list had been requested from the Ministry in several instances as per the University Grants Commission Circular No.876, it had found difficult to obtain the name list according to the prevailed political situation. It is kindly informed that the employees have been made on duty assignment basis to perform duties of those posts until the recruitments are made.</p>	<p>Vacancies should be filled immediately</p>

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) According to the Action Plan, the enrollment of the students for the main two MSC courses, Molecular life science and molecular immunology can be made at 50 students for the year under review. Nevertheless, the number of students enrolled had been 12 and 7 or minimum level of 25 per cent and 15 per cent respectively.	The Action Plan is a prior prediction expected to be achieved in future. Enrollments for the Msc Degree courses are made based on the results of the selection aptitude test and the interview conducted thereafter. Although it had been expected to enroll 50 students for the two Msc courses, Molecular life science and molecular immunology in the year 2018, only 12 students and 07 students who had satisfied the relevant qualifications have been enrolled for the courses.	The Action Plan should be prepared in a manner able to implement practically and the management's attention should be focused on the utilization of the resources of the Institute ensuring their optimum efficiency.
(b) It was observed in reviewing the progress of the Action Plan pertaining to the year 2018 that 14 activities relating to 09 objectives specified in the Action Plan had not been carried out.	Three researches were conducting throughout the year 2018 and the final research theses is scheduled to be handed over in the year 2019. Nine objectives could not be achieved in the year 2018 and the officers who had been assigned the relevant responsibility have informed the progress reviewing of the Action Plan for the year 2018 that steps will be taken to achieve those objectives in the year 2019. One objective could not be achieved due to lack of clones. One training workshop had been conducted during the year 2018 and necessary arrangements have been made to conduct another workshop in the year 2019.	The Action Plan should be prepared in a manner able to implement practically and the management's attention should be focused on the utilization of the resources of the Institute ensuring their optimum efficiency.



## 4.2 Budgetary Control

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>When comparing the budgeted income and expenditure pertaining to the year 2018 with the actuals, the generated income had remained less than 9 per cent to the budgeted amount and variations ranging from 8 per cent to 95 per cent could be observed relating to 03 Objects.</p>	<p>Since the number of students and annual Government Grants decreased, the actual income had declined than the predicted income. Nevertheless, since the Institute had to be maintained amidst the existing inflation, expenditure on supplies and maintenance had exceeded the budgeted amount.</p>	<p>The budget should be made use of as an effective instrument in the financial control.</p>