

## **Institute of Indigenous Medicine 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 of Institute of Indigenous Medicine 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 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements of the Institute give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its 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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My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 intends 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 of the Institute.

#### **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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The Institute is 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.

### **1.5.2 Non-compliance with the Sri Lanka Public Sector Accounting Standards**

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<b>Non Compliance with the reference to particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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a) Academic activities of the 3 year M. D. (Ayurveda) (2016/2019) course being conducted at the post graduate department of the Institute of Indigenous Medicine, had not been commenced in the year under review. The contingencies likely to arise in that connection in terms of Sri Lanka Public Sector Accounting Standard 01, had not been disclosed in the financial statements.	A decision had not been taken specifically in this regard, thus causing this situation.	The contingencies should be disclosed in financial statements in terms of Standards.

- b) The income from the hostel fees amounting to Rs. 395,300 received as at 31 December 2018 had been brought to accounts on cash basis due to difficulties faced by the Institute in adhering to accrual basis. However, this had not been disclosed in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.
- As it is not possible to determine accruals and receipts in advance due to variations of the students occupying the hostels, the receipts are accounted on cash basis.
- Income should be brought to accounts on accrual basis.

### 1.5.3 Accounting Inefficiencies

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Audit Observation -----	Comments of the Management -----	Recommendation -----
a) The income amounting to Rs. 211,111 receivable from a student who had vacated the course – M. D. (Ayurveda), in the year under review, had not been adjusted to the accounts.	Accepted. No specific decision had been made in regard to the relevant course, thus causing the said situation.	The receivable income should be accounted accurately.
b) Penalties totalling Rs. 10,803 had remained receivable with respect to delays in returning the borrowed library books. However, that sum had not been shown as being receivable in the financial statements.	This situation had arisen due to failure of the library in providing information. Action will be taken in the future to minimize such deficiencies.	The receivable income should be accounted accurately.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Monies Receivable

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Audit Observation -----	Comments of the Management -----	Recommendation -----
The sum of Rs. 79,000 paid by the Institute in the year 2012 for air tickets of a lecturer who had proceeded abroad for post graduate training on the financial assistance of the University Grants Commission, had not been reimbursed by the University Grants Commission even up to the year 2018.	Action is being taken to obtain the said amount from the University Grants Commission.	Action should be taken to recover the monies receivable.

## 1.6.2 Advances

Audit Observation	Comments of the Management	Recommendation
When publications are purchased from the foreign publishers, payments are made by the Institute before obtaining the service. The sum released as at 31 December 2018 for the purchase of publications in such a manner, amounted to Rs. 3,937,832. The balance existed therein that had continued to exist for 1 – 5 years, amounted to Rs.1,615,057.	Payments are made before the year of print when purchasing foreign magazines. However, the magazines are not received in the ensuing year itself, but received in the years thereafter.	Action should be taken to minimize the time taken in purchasing the publications.

## 1.7 Related Parties and Related Party Transactions not Disclosed

Audit Observation	Comments of the Management	Recommendation
As of the year 2016, the Committee of Ethics of the Institute of Indigenous Medicine had not been authorized to grant approval for conducting clinical tests. In such an instance, approval of a Committee of Ethics established in a counterpart institution capable of granting approval for clinical tests, should be obtained. However, without doing so, a clinical test had been conducted in December 2016 by dispensing medicine to the patients of the Teaching Hospital of Ayurveda upon approval of the Committee of Ethics of the Institute of Indigenous Medicine. When two of the 04 researchers who conducted the said test, had held the positions of Chairman and Secretary of the Committee of Ethics of the Institute of Indigenous Medicine, the approval of the said Committee had been obtained for the test in which they had also taken part, and one of those lecturers had been a consultant of the company manufacturing the relevant medicine.	An investigation is being carried out in this connection by a Committee appointed by the Board of Management .	Approval of a Committee of Ethics entrusted to grant approval for conducting clinical tests, should be obtained. The related parties should not participate in the decision making process.

## 1.8 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial Regulation 104	Despite being revealed at the time of revaluing the assets that the existence of assets costing Rs. 744,947 had not been verified, the Institute had not taken action in that connection as per Financial Regulations.	Not exist in physical form.	Financial Regulations should be adhered to.
Financial Regulation 371	Monies obtained as advances should be settled as soon as the completion of the intended purpose. However, the total amount given in 10 instances, had been settled after a delay without being used.	The total amount of advances had been settled without being used as the relevant activities had been postponed on various reasons.	Financial Regulations should be adhered to.
Financial Regulation 757 (2)	According to the report on the survey of assets, 44 items of assets had not been recorded in the inventory book as at 31 December 2018 whereas a shortage of 96 items of assets had existed as at that date.	Action will be taken after examining.	Financial Regulations should be adhered to.
Sections 4.2.2 and 4.2.6 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The quarterly, half-yearly, and annual performance reports relating to the department-wise performance of the Yunani, Ayurveda, and postgraduate sections, had not been furnished to the Line Ministry, and the Department of Public Enterprises of the Treasury.	Action is being taken to furnish the reports on Ayurveda and Yunani sections relating to the year 2018 whilst the said reports will be furnished in due course in the future.	Action should be taken in accordance with the Circular.

<p>Schedule 3 of the Treasury Circular, No. 842, dated 19 December 1978</p>	<p>All the measures should be taken as required by the Circular to keep records on the fixed assets. However, the Register of Fixed Assets had not been maintained by indicating the accumulated depreciation.</p>	<p>Depreciations have been shown in the Register of Fixed Assets. Discussions relating to the inefficiencies of the software are held with the company from which the software had been purchased. As such, action will be taken to rectify the issue.</p>	<p>Action should be taken in accordance with the Circular.</p>
<p>Section 3.1.6 of the Public Finance Circular, No. 2016/05 dated 31 March 2016</p>	<p>The annual Board of Survey should have been conducted for the year 2018, and the reports thereof should have been furnished to the Auditor General before 17 March 2019 in terms of the Circular. However, those reports relating to 06 Sections of the Institute, had not been furnished to the Auditor General even up to 10 May 2019.</p>	<p>Action will be taken to minimize delays and furnish the reports of the Board of Survey on assets on time in the future.</p>	<p>Action should be taken in accordance with the Circular.</p>

## **2. Financial Review**

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### **2.1 Financial Results**

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The operating result of the year under review had been a deficit of Rs. 25,724,695 as compared with the corresponding deficit of Rs. 23,668,975 for the preceding year, thus observing a deterioration of Rs. 2,055,720 in the financial result. Although the recurrent grants for the year under review had increased by Rs. 75,319,000, the deterioration of the financial result was mainly attributable to the increase in the allocations for pension gratuity by Rs. 7,462,791, and the increase in the administrative expenses and academic services expenses by sums of Rs. 18,686,383 and Rs.47,546,295 respectively.

### 3. Operating Review

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#### 3.1 Underutilization of Funds

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Audit Observation	Comments of the Management	Recommendation
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As purchases had not been made in accordance with the Procurement Plan, the sum that remained unutilized from the Government capital grants, amounted to Rs. 7,788,661 as at 31 December 2018.	The sum pointed out as being unutilized, remained so due to delays in settling the bills relating to the goods purchased and contracts awarded. The value of sundry debtors amounted to Rs. 12,363,611 as at 31.12.2018. However, action will be taken to utilize all the funds in the future within the relevant year.	Action should be taken in accordance with the Plan.

#### 3.2 Delays in the Projects or Capital Works

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Audit Observation	Comments of the Management	Recommendation
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Provision amounting to Rs.16,910,425 had been made for the year under review on 09 projects with respect to rehabilitation and modification of capital assets. A sum of Rs. 15,208,945 had been spent in the year under review on the rehabilitation and modification of assets in the year under review, and of that amount, a sum of Rs. 9,471,101 had been spent on the projects relating to the year 2017.	Payments had been made in the year 2018 for the contracts that had been commenced in the year 2017 and completed in the year 2018.	Action should be taken in accordance with the Plans.

#### 3.3 Procurement Management

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Audit Observation	Comments of the Management	Recommendation
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a) In terms of Guideline 4.2.1 (b) of the Government Procurement Guidelines – 2006, every Government institution should include the procurement activities expected for a period of at least 3 years, in the main Procurement Plan. However, the Institute had not prepared a main Procurement Plan.	A Procurement Plan is prepared with effect from the year 2019 in terms of Guideline 4.2.1 (b) of the Government Procurement Guidelines – 2006.	Action should be taken in accordance with instructions of the Government Procurement Guidelines.



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| <p>b) The time frames of the procurement process of the Institute had been shown in the detailed Procurement Plan prepared for the year under review. However, it was observed in examining the procurement activities of the Institute that the said time frames had been contradicted.</p> | <p>The time frames shown in the detailed Procurement Plan for the year 2018 had to be changed up to certain extent due to strikes by the employees and students' activities. However, action will be taken in the year 2019 to minimize the changes in the time frames.</p> | <p>Action should be taken in accordance with instructions of the Government Procurement Guidelines.</p> |
| <p>c) As the procurements not executed in the preceding year had not been shown as being "continued" in the Procurement Plan, the progress obtained and the targets expected from the procurements of the year under review remained low due to the said situation.</p>                      | <p>The procurements not executed in the year 2018 were shown as "continued" in the Procurement Plan prepared in the year 2019.</p>  | <p>Action should be taken in accordance with instructions of the Government Procurement Guidelines.</p> |

**4. Accountability and Good Governance**  
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**4.1 Presentation of Financial Statements**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>The financial statements together with the draft annual report should be presented within a period of 60 days from the end of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. However, the draft annual report of the year 2018 had not been presented to the Audit.</p>	<p>The annual report for the year 2018 is being prepared. Action will be taken to present it to the Audit in the future.</p>	<p>Action should be taken in accordance with the Circular.</p>

**4.2 Annual Action Plan**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>a) Contrary to Public Finance Circular, No. 2014/01, dated 17 February 2014, the annual Action Plan had not comprised the organizational structure, approved cadre, actual cadre, imprest plan for the annual requirements, the budget, Procurement Plan, and the internal audit plan.</p>	<p>Prepared accurately.</p>	<p>Action should be taken in accordance with the Circular</p>

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| b) Due to failure in taking action to identify the targets and indicators when preparing the annual Action Plan for the year 2018, the Institute's achievement of targets and objectives could not be measured.   | The Action Plan for the year 2019 is prepared by minimizing the deficiencies.  | Action should be taken to identify the indicators to measure the achievement of targets.            |
| c) As for the 06 preceding academic years, 94 and 39 students had vacated the Ayurveda and Yunani courses respectively by the end of the year under review thus indicating an unfavourable increase of 14 per cent and 15 per cent respectively as compared with the preceding year.  | Not replied.   | Necessary action should be taken by continuously reviewing the issue of vacating the courses.       |
| d) The percentage of failing the exams had increased in parallel with the seniority of the students who sat the exams. Twenty five sessions of exams had been conducted in the year under review for the students pertaining to 07 academic years from 2010/2011 up to 2016/2017. Of the students who had sat those exams, the percentage of failure was 44 per cent and 35 per cent for the degree of Ayurvedic medicine and the degree of Yunani medicine respectively. | This situation could be attributable to the matters such as, certain shortcomings of the courses, lack of resources in the Institute and the Teaching Hospital of Ayurveda, lack of students' interest in the practicals, and external activities of the students. Necessary amendments have been made to the course and action is being taken to minimize the said issue.   | Necessary action should be taken by continuously reviewing the issue of students failing the exams. |
| e) It was revealed in the examination of student enrollments during the 07 preceding years that 1,580 students should have been enrolled considering the resources available at the University and the number of students approved by the University Grants Commission. However, only 1,475 students had been enrolled during that period. This indicated 93.4 per cent of the number students that would have been enrolled.   | The Institute had not decreased the number of student enrollments. Students are registered in accordance with the Register sent by the University Grants Commission whereas the Registers that had not been registered are sent to the University Grants Commission, and a new Register is sent in accordance therewith which is used to make registrations. As such, the registration process takes place several times, and this situation had arisen due to some of the students not being registered – an issue beyond scope of the Institute. | The resources existing at the University should be optimally used.                                  |

### 4.3 Sustainable Development Goals

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Audit Observation	Comments of the Management	Recommendation
<p>The Institute had become aware of the “2030 Agenda” of the United Nations on sustainable development. However, action had not been taken to identify the sustainable development goals, targets, milestones in reaching such targets, and the indicators to measure the achievement of targets.</p>	<p>Having identified the deficiencies pointed out by the Audit, action will be taken to identify the sustainable development goals, targets, milestones in reaching such targets, and the indicators in the year 2019.</p>	<p>Action should be taken to identify the indicators.</p>