

1.1 Qualified Opinion

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 2019 comprising the statement of financial position as at 31 December 2019 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 section 107 (5) and 108(1) of the University Act No 16 of 1978 and section 17 of Institutes of Biology and Biotechnology Act No. 01 of 2003 and the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to 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 give a true and fair view of the financial position of the Institute as at 31 December 2019, 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

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 (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

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

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

1.5.1 Non Compliance with the Sri Lanka Public Sector Accounting Standards

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Even though assets should be classified as current assets and non-current assets in the preparation of financial statements in accordance with paragraph 70 of Sri Lanka Public Sector Accounting Standards 01, fixed deposits total amounted to Rs.51,576,257 and total employee loan balances of Rs.3,373,969, had over a period of one year and more than 10 years, were fully classified as current assets.	Even though the fixed deposit lasts for more than one year, the institute should able to cancel the fixed deposit and withdraw the money at any time when it needs cash. Also, employee loans will be classified as fixed and current assets when preparing financial statements in 2020.	Need to be complied with accounting standards.
(b) As per the University Grants Commission Circular No. 05/2019 dated 04 June 2019, due to the academic allowance and the monthly compensation allowance were included in calculating the gratuity with effect from 01st June 2019, annual expenditure on gratuity by Rs. 12.4 million or 1769 percent and allocation for gratuity by Rs. 13.1 million or 181 percent had	Relevant disclosures will be made in accordance with the paragraph 44 of the Sri Lanka Public Sector Accounting Standards 03 “Accounting Policies, Accounts Estimates and Changes in Errors” in the time of preparation of the final accounts for 2020.	Necessary disclosures in accordance with the accounting standards should be made in the accounting notes.

increased compared to the previous year. However, the relevant disclosures were not made by notes in this regard in accordance with paragraph 44 of the Sri Lanka Public Sector Accounting Standards 03 “Changes in Accounting Policies, Accounts Estimates and Errors”.

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| (c) | Even though the value of the land and buildings existing of this institution should be taken into account in accordance with the definition of property, plant and equipment as per paragraph 13 of Sri Lanka Public Sector Accounting Standards 07 and subject to the identification of property, plant and equipment mentioned in paragraph 14, the value had not been assessed and accounted for accordingly. Although no assets included as buildings under non-current assets, a sum of Rs. 1,389,856 had been accounted as building repair expenses and, accordingly, the assets of the institute were not accurately stated in the financial statements. | Although the building and land have not been capitalized, the building was maintained from time to time during the year under review. Those expenses are shown under recurrent expenses. | Accounting standards should be complied. |
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1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) When accounting the course income, based on the total course fee the differed course income and due course income should be calculated and accounted for. Contrary to that, the course income received in cash during the year had been differed and instead of being kept the annual cost of each course separately it had been deducted from the differed course income account.	Accounting for Receivable income will be corrected in the final accounts 2020. Arrangements will be made to keep separate accounts for the revenue and expenditure related to the courses.	An accurate accounting treatment should be followed to reflect the course income to be received.
(b) Even though fixed deposit withdrawals should be shown under Investment Activities in Cash Flow Statement was only	Deposit withdrawals of Rs.11,100,000 in the year 2019 was shown under the reduction of fixed deposits in the cash flow, generated	An accurate correct cash movement should be shown.

Rs. 11,100,000, that amount was shown as Rs. 6,221,448 under the Net Cash Flow generated by the Investment Activities.

by the investment activities. Further, the total direct interest income of Rs. 4,878,551 on fixed deposits which was not received in cash was deducted from the interest income under investment activities. After making such corrections, copy of the revised financial statement will be submitted to the audit.

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

The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
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(a) Financial Regulation 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Even though advances should be settled immediately after the completion of the work which it is granted, a period ranging from 30 days to 320 days had been delayed for the settlement of advances totaling of Rs.102,558 obtained in 09 instances.	The comments of the audit were noted. Instructions were given to settle the advances as soon as possible.	Need to be complied with the Financial Regulations
(b) Sub-section 15(V) of Part 11 of the Universities Act No.16 of 1978	Even though 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 03 courses conducted by the Institute at present.	Action for taking the approval of the University Grants Commission for the relevant courses is currently in progress.	Need to be complied with the University Act.
(c) Public Finance Circular No. 2016/05 dated 31 March 2016	Even though previous year board of survey should be completed before 17 March of each financial year, completion of board of survey of the year 2018 was delayed till 14 May 2019 and the board of survey of the year 2019 was delayed till 17 August 2020.	Submission of 2019 reports was delayed due to the Covid-19 epidemic that spread out in the country after 13 March 2019.	Circular dates should be duly followed to avoid delays.

2. Financial Review

2.1 Financial Results

The operations in the year under review had resulted in a deficit of Rs. 16,146,325 as compared with the corresponding deficit of Rs. 4,847,672 for the preceding year, thus observing a deterioration of Rs.11,298,653 in the financial result. The increase in gratuity allowances had mainly attributed to this deterioration.

2.2 Trend Analysis of Major Income and Expenditure Items

Due to the payment of research allowances under the National Science Foundation (NSF) grants had been accounted under personal emoluments, personal emoluments had increased by Rs. 15,293,051 or 96 percent in 2019 compared to 2018.

3. Operating Review

3.1 Operating Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the Board of Survey reports of the year 2018, action had not been taken on the shortage of 07 items observed between the quantities of items mentioned in the books and the quantities verified by the physical survey. Also, action had not been taken to dispose of 36 items recommended to dispose even by the end of the year under review.	Action will be taken for all the deficiencies observed after the completion of the board of survey relevant to the year 2019. As per the recommendations of the board of survey report 2019, 36 relevant items will also be auctioned at the auction.	The recommendations of the Board of Survey should be implemented within the respective period.
(b)	It was observed that resources are underutilized due to student's registration was only 50 percent, out of the capacity in two courses conducted by the institute.	When selecting students for courses, advertisements are published in national newspaper and in the institution web page, and only students who appear for an exam and pass are eligible for enrolment. Accordingly, it is not possible to predict the number of students enrolls.	Attention should be paid to developing operational activities to make maximum use of institutional resources.
(c)	According to the stock ledger verification as on 31 December 2019, 225 stock items total valued for Rs. 3,147,754 were not issued and remained for a period of 01 to 04 years and observed that unnecessary stocks were purchased and retained.	Many of these items were donated by the Medical Faculty and taken into the system in 2016. The academic staff will be informed and action will be taken to use it for research in the institute.	Effective stock procurement process should be maintained to prevent losses due to stock obsolescence.

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
According to the procurement plan, the approved budget for purchasing desktop computers in 2019 was Rs. 600,000, desktop computers at total value of Rs. 1,681, 475 had been purchased, exceeding the approved limit. Accordingly, purchases were made in excess of the approved limit of Rs. 1,081,475, or 64 percent.	1,140,000 worth of computers have been purchased for the Biotechnology course. Advertising for that course was done in late 2018 and enrollment was done in the year 2019. These expenses were budgeted to cover from the funds earned. Incompatibility was due to that the procurement plan was completed in July 2018. The number of students enrolled was determined in the month of January 2019.	The procurement plan should be periodically updated as appropriately.

3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) Due to the officer who served as the Deputy Bursar of the institution has obtained sabbatical leave and while an officer has been appointed to act in that post, a retired officer has been appointed to the same post on assignment basis and an additional expenditure of Rs. 237,375 had been incurred on her for the period from October 2019 to 15 January 2020.	Being a financially independent institution, the full-time service of an authorized financial officer is essential. An officer has been appointed on a contract basis to the post of Assistant Bursar of the Institute as per Resolution 178.13 at the 178th Board Meeting held on 09/09/2019. Subsequently, on the recommendation of the Audit Committee dated 22.10.2019, it has been decided to change her post on assignment basis.	When appointing an acting officer, attention should be paid to the ability to perform that function.
(b) The approved cadre of the Institute was 47 of which 13 vacancies in 6 posts had not been filled by the end of the year 2019. The actual cadre of the year 2019 was comprised of 04 officers recruited on contract basis, 21 visiting lecturers and 09 officers recruited on assignment basis, leaving a surplus of 21 officers for 04 approved staff posts.	Permission has been granted by the Department of Management Services to recruit for the vacant posts on contract basis only for 03 posts pertaining to the academic staff. As the relevant recruitment procedures have not been approved for the remaining 03 vacancies, arrangements are made to make payments from the funds earned for the officers who have been recruited on assignments basis. Payment for the services receiving from the visiting lecturers, mentioned as excess, are made under the Provisions in Circulars of the University Grants Commission.	Vacancies for posts in the approved cadre should be filled immediately.

