

Institute of Indigenous Medicine affiliated to the University of Colombo -2019

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Indigenous Medicine 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 net assets 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 Finance Act No. 38 of 1971. 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 accompanying 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 its 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 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 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 Audit Scope

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 Internal Control over the preparation of financial statements.

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.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non- Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
(a) The cash flow generated from the investment activities had been understated by Rs. 12,354,598 in the statement of cash flow as per the Sri Lanka Public Sector Accounting Standards No. 02.	In preparing cash flow statement, the cash flow generated from investment activities has been accurately stated. The value of assets acquired during the year under review was Rs.72,323,199. A sum of Rs. 62,156,162 was shown under the acquisition of assets after deducting the total of the donations of Rs. 304,735 received during the year under review and the sundry creditors amounting to Rs. 9,880,645 from the aforesaid amount .	The opening balance of the creditors generated at the time of procuring of assets need to be adjusted.

(b) Although there were library books which had been fully depreciated but further being used by the end of the year under review cost at Rs.22,979,374, actions had not been taken to revalue or to disclose in this regard by notes to the financial statements.

It is difficult to determine the effective lifetime of library books. Similarly, in considering shortage of experts to revalue such books, having a large stock of books, difficulties in determining the evaluation based on market value and the time and cost involved thereon, this is not a practical situation therefor.

The standard should be followed.

1.5.3 Accounting Deficiencies

----- Audit Issue -----	----- Comments of the Management -----	----- Recommendation -----
<p>A sum of Rs. 760,437 payable on purchase of carpets for the Stadium had not been shown under the accrued expenses in the financial statements.</p>	<p>Out of the value stated in the Goods Received Note No. 4119, the Table Tennis Flooring Mat valued Rs. 192,000 and Gym Ball Set valued at Rs. 9,450 were not capitalized. The value of Rehabilitation Expenses was Rs.694,737 and the value of recurrent expenses was Rs.65,700 . Similarly, since the value of rubber carpet and yoga mat aggregating to Rs. 558,987 of Goods Received Note No. 4085 had also not been capitalized, the balance of Rs.1,940,355 has been accounted for under Sports Equipment.</p>	<p>Accrued expenses need to be accounted in proper manner .</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation	
(a) Directives made by the Meeting of Committee on Public Enterprises held on 20 September 2019 to review the affairs of the Institute	Directive No. 05	The Committee emphasized that the need of maintaining of separate Internal Audit Unit by all the institutions remained under the purview of the National Universities to maintain as required by the National Audit Act No. 19 of 2018. However, the Institution had not taken actions to establish an Internal Audit Units accordingly within the cost limits affordable by the Institute.	Approval has been sought from the Department of Management Services to create a post of Internal Audit.	Action should be taken as per the Directives given by the Committee.
	Directive No. 13	Even though the Directives were given to create a database on the information of the students who have been graduated by the Institute and the field in which they are currently involved and since there was a tendency of dropping	A database has been prepared comprised with the reasons for leaving out the courses of students who had left and their current status as well.	Action should be taken as per the Directives given by the Committee.

out of the courses by the student, such a database had not been setup.

<p>(b) Financial Regulation 756 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka</p>	<p>The medical equipment which were handed over to the National Ayurveda Teaching Hospital on 31 July 2014 valued at Rs. 1,659,145, had not been verified during the year under review.</p>	<p>Although it is a duty of the hospital to maintain inventory registers, the Institute of Indigenous Medical has inspected the goods and confirmed their existence. Actions will be taken to rectify these activities furthermore in future.</p>	<p>Actions should be taken in terms of Financial Regulations .</p>
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2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs. 140,992,411 and the corresponding deficit in the preceding year was Rs. 25,724,695 . Accordingly, a deterioration of Rs.115,267,716 in financial result was observed. There was a dramatic increase in operating expenses by Rs. 217,478,692 as compared to less increase in operating income by Rs.101,210,976 and this had mainly attributed to the deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Issue -----	Comments of the Management -----	Recommendation -----
<p>Since the land with buildings belonging to the Department of Irrigation where the students’ dormitory of the Institute ran for 24 years had been handed over to the Urban Development Authority on 14 February 2014, to acquire to the Institute of Indigenous Medicine as per the observation made by the Ministry of Finance on the Memorandum of Cabinet of Ministers dated 28 August 2019, although it had been informed to</p>	<p>This land with the building has been transferred to the Urban Development Authority by the Cabinet Memorandum No. 1-132 / 503/1735/13 dated 27 January 2014 and it has been transferred again to the Ministry of Higher Education by the Cabinet Memorandum No. 095/110/2221/19 of 29 August 2019. Necessary steps will be taken to take over it to the Institute of Indigenous</p>	<p>Actions should be taken to take over the land.</p>

take over the land after obtaining its consent, the land had not been so acquired. Medicine, University of Colombo in future.

3.2 Defects in Contract Administration

----- Audit Issue -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) Even though a Part of a leased building had been demolished and a reading hall was constructed at a cost of Rs. 1,991,507 and the respective building had been handed over to the Institute on 23 July 2019, it had not in use even by 08 September 2020 , the date of the audit.</p>	<p>This had been undertaken as per the recommendations of the Superintendent of Works and the Administrator (Civil) of the Institute and actions will be taken to obtain the recommendations of the Heads of the Divisions on such constructions in future.</p>	<p>The respective building should be turn into the point where the benefits could be gained to the Institute.</p>
<p>(b) As it was revealed that the irregularities had occurred in 04 construction contracts valued at Rs. 6,538,929 and although it had been recommended to carry out a formal inquiry from the report of the Preliminary Investigation Committee dated 06 May 2019, a formal investigation had not been conducted even by 08 September 2020 . Further, delay charges amounting to Rs. 652,092 need to be charged for 03 contracts included in above had not been recovered in terms of agreements.</p>	<p>It is informed that no formal inquiry has been conducted according to the decision of the Finance Committee. Since the facts such as protests conducted by the students, strikes of non-academic staff and Easter Day Attack had caused for the delays in contracts, the delay charges had not been recovered in terms of agreements.</p>	<p>The recommendations of the Committee should be taken into consideration and actions need to be taken as per the provisions of the agreements.</p>

3.3 Human Resources Management

----- Audit Issue -----	----- Comments of the Management -----	----- Recommendation -----
Sixty seven vacancies in 15 posts including senior and tertiary levels remained in the permanent staff of the Institute had not been filled at the end of the year under review.	Out of these posts , the activities of recruitment have been completed for 32 posts including Work Assistant, Healthcare Worker, Book Keeper and Disciplinary Inquiry Officer and submitted to the Governing Council for approval. Further , the recruitments have been suspended until the end of the period of General Election.	The number of position of approved cadre and vacancies existed need to be reviewed and action should be taken either to recruit or amend the approved cadre positions.

4. Accountability and Good Governance

4.1 Annual Action Plan

----- Audit Issue -----	----- Comments of the Management -----	----- Recommendation -----
Due to failure of stating a specific time frame on the circumstances to be achieved in relation to the activities mentioned in the Action Plan and the circumstance expected to be fulfilled within the said time frame quantitatively, the physical performance of the Institute could not be assessed.	The Action Plans have been properly prepared considering the deficiencies pointed out by the audit.	The Action Plan should be prepared as enable to evaluate the performance of the Institute..

4.2 Sustainable Development Goals

----- Audit Issue -----	----- Comments of the Management -----	----- Recommendation -----
Although the Institute was aware of the United Nations' Agenda for Sustainable Development 2030, actions had not been taken to identify the milestones to achieve the Sustainable Development Goals and objectives that could be applied to the organization and the indicators for measuring achievements on those goals.	Actions have been taken to identify the objectives and intentions of Sustainable Development as pointed out by the audit.	The Sustainable Development Goals and Indicators (KPIs) should be included in the Action Plan of the Institute.

