

Institute of Indigenous Medicine affiliated to the University of Colombo - 2021

1. Financial Statements

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 2021 comprising the statement of financial position as at 31 December 2021 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 Section 21 of the Indigenous Institute of Medical Sciences Ordinance No. 07 of 1979 enacted under Section 18 Section 107(5) of the Universities Act No. 16 of 1978 and Section 108(1) of the Universities Act. 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 2021, 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 Audit Observation on Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

| Non- Compliance with the Reference to Particular Standard | Comments of the Management | the Recommendation |
|--|--|---|
| <p>(a) Although the difference between the depreciation based on the fair value of the revalued asset and the depreciation based on the original cost of the asset can be transferred from the revaluation surplus to the general reserve in accordance with paragraph 55 of the Sri Lanka Public Sector Accounting Standard 7, contrary to that, depreciation values of Rs.21,838,766, Rs.14,019,732 and Rs.14,019,732 calculated on the based on the revaluation value in the year under review and in the years 2019 and 2020 respectively had been transferred from the revaluation reserve to the general reserve. Accordingly, the revaluation reserve and the general reserve were understated and overstated by Rs. 49,878,230 respectively in the financial</p> | <p>We have accounted based on the both the original cost included in the revaluation fair value and the revaluation surplus. Then always only a portion of the revaluation profit will be transferred to the general reserve compulsorily.</p> | <p>Sri Lanka Public Sector Accounting Standards should be complied.</p> |

statements as at 31 December 2021.

- (b) The capital grants received during the year under review to the university amounted to Rs. 57,337,538 had not been recognized and measured in the financial statements in accordance with Sri Lanka Public Sector Accounting 11. It had been entered into the ledger accounts separately at the time of receipt of the relevant provisions, and submits herewith the relevant ledger pages. Sri Lanka Public Sector Accounting Standards should be complied.

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| (a) The increase in the receivable balance of Rs.8,355,852, which should be adjusted as a cash outflow to the working capital variance in the cash flow statement, had been adjusted as a cash inflow. | If advice can be given on how this should be corrected, it will be corrected accordingly. | Action should be taken to prepare the cash flow statement accurately. |
| (b) A receivable of RS.8,381,174 due for breach of bond agreements as on 31December 2021 had not been accounted. | Entry had not been made in the accounts as the amount due had not been determined. | According to section 7.6 of the Establishment Code of the University Grants Commission, the related bond value should be recovered from the date of breach of the agreement, so it should be identified and accounted for as receivable. |

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) Section 40 (1) of the National Audit | An internal audit unit had not been | Action is being taken to establish | Should act in accordance with |

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| | Act No. 19 of 2018 established. | | an internal audit unit by the institute. | the Audit Act. |
| (b) | Section 8.2.2 of the Public Enterprise Circular No. PED / 12 of 02 June 2003 | A sum of Rs. 14,835,370 had been invested in fixed deposits by the institute as on 31 December 2021 without obtaining the prior approval of the Minister in charge of Finance. | No investment had been made in fixed deposits during the year under review. Only automatic renewal of interest on Previously invested fixed deposits had taken place. | Surplus funds of the institution should be invested only with the prior approval of the Minister in charge of Finance. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs. 17,995,402 and the corresponding deficit in the preceding year was Rs. 7,712,692. Accordingly, a deterioration of Rs.10,282,710 in financial result was observed. Decrease in operating income by Rs. 10,356,091 had mainly attributed to this deterioration.