

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 2022 comprising the statement of financial position as at 31 December 2022 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 the 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 2022, 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 Auditors Responsibility 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 Audit Observation on Preparation of 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) According to the Special Gazette No. 23/9/22 dated 13 February 2023, the Institute of Indigenous Medicine was established as a faculty of the University of Colombo from 01 March 2023, it had not been disclosed in this regard in the financial statements of the year under review according to Sri Lanka Public Sector Accounting Standard 06.	At the time of preparing the accounts, no specific information had been received regarding the date of becoming a faculty.	Relevant disclosures should be made according to Sri Lanka Public Sector Accounting Standards.
(b) According to Sri Lanka Public Sector Accounting Standard 02, in preparing the cash flow statement, interest receivable amounting to Rs.426,779 had been shown as interest received in cash under investment activities and donation of goods worth of Rs.990,000 had been shown as cash donations under financial activities.	In preparing the cash flows statement, the total investment interest amount had been deducted from the surplus to determine the surplus or deficit from operating activities. Accordingly, the entire amount had been added under investing activities.	Cash flow statement should be prepared following Sri Lanka Public Sector Accounting Standards.
(c) In accordance with paragraphs 74 and 75 of Sri Lanka Public Sector Accounting Standard 07, the asset depreciation	Action will be taken to find out the method followed by the	Sri Lanka Public Sector Accounting Standards should be followed.

method should be reviewed annually to reflect the expected pattern of consumption of economic benefits or service potential related to the revalued assets. But, the property, plant and equipment revalued as at 01 January 2021 had not been dealt with accordingly.

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| (d) | According to paragraph 47 of Sri Lanka Public Sector Accounting Standard 07, a revaluation should be done in every three to five years for property, plant and equipment and the asset depreciation method should be reviewed annually. But due to the useful lifetime of the assets had not been accurately estimated, the library books costed for Rs.28,201,359 continued to be in use despite being the carrying value was zero. | Action will be taken to find out the method following by other universities regarding the revaluation of library books and necessary instructions will be given to act accordingly. | Sri Lanka Public Sector Accounting Standards should be followed. |
| (e) | As per paragraph 40 of Sri Lanka Public Sector Accounting Standard 14, the detail information of the key managers of the institute and their cumulative emoluments were not disclosed with the financial statements. | Action will be taken to disclose in the future. | Relevant disclosures should be made according to Sri Lanka Public Sector Accounting Standards. |
| (f) | According to paragraph 118 of Sri Lanka Public Sector Accounting Standard 20, intangible assets worth of Rs.1,240,000 were shown under property, plant and equipment instead of being shown as a separate item in the statement of financial position. | The value of intangible assets was only Rs.1,240,000. Due this value has no any effect to the accounts and, also no change has been made in depreciation rates. | Relevant disclosures should be made according to Sri Lanka Public Sector Accounting Standards. |

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)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 772 and Asset Management	Although differences disposals identified	the Since the Institute of and Indigenous Medicine has become a Faculty of	Action should be taken in accordance with the financial

	Circular No. 10/2022 dated 09 September 2022	the annual board of surveys should be done promptly, the recommendations of board of surveys in the year 2021 and 2022 had not been implemented.	Indigenous Medicine from 01.03.2023, the assets of this institution are currently being handed over to the University of Colombo and it is currently planned to carry out the disposals before 15th July with the relevant approvals.	regulations and circulars.
(ii)	Financial Regulations and Public Finance Circular No. 03/2015 dated 14 July 2015	Although Ad-hoc imprests can be issued only up to a maximum of Rs.100,000 at a time, but contrary to that, ad-hoc imprests of Rs.114,000 each were given in 06 occasions.	These advances had been taken to pay the allowance of the members of the Management Committees. After discussion with the audit committee, action had been taken to make payments directly to the bank.	The financial regulations and circulars should be followed.
(b)	Circulars			
i	Circular Letter No. BD/HRD/126/214/19/2023 dated 18 January 2023 addressed to the Secretary of the Education by the Secretary to the Treasury	Although the money recovered on bond violations should be remitted to the treasury as soon as received, a sum of Rs.4,230,939 had been invested in fixed deposits with the approval of the Finance Committee.	That the University Grants Commission Circular No. 737 had been followed.	Action should be taken according to the circular letter referred to.
ii	Section II of the Finance Act No. 38 of 1971 and Internal Audit Circular Letter No. 04/2019 dated 29 July 2019 of the University Grants Commission	A sum of Rs.32,950,223 had been invested as on 31 December 2022 on the approval of the finance committee without obtaining the approval of the relevant minister and the minister of finance.	,A sum of Rs.32,950,223.00 was shown as a favorable balance in the excess money investment account is the money invested in all the four bank accounts.	Action should be taken according to the regulations referred to.
iii	Asset Management Circular No. 01/2018 dated 19 March 2018	A sum of Rs.1,327,500 received from the sale of vehicles in the year 2021, had not been sent to the treasury.	Not invested in a fixed deposit.	Action should be taken according to the regulations referred to.

1.7 Financial Management

Audit Observation	Comments of the Management	Recommendation
The money obtained by selling a portion of 10.08 perches of land owned by the institution to a private institution in the year 2014 was only approved to be transferred to the Institute of Indigenous Medicine, as per the Cabinet decision dated 19 June 2013. Accordingly, while the money should have been used for the monthly cash requirement, it had been invested in two fixed deposits on the approval of the finance committee of the institution and the balance of the investment account as at 31 December 2022 was Rs.16,407,211.	Part of the land owned by the institution had been sold as per the decision of the Cabinet and the money had been approved to be used for the development activities of the institution instead of being sent to the Treasury.	As per the decision of the Cabinet, it was only approved to be transferred to the Institute of Indigenous Medicine, so the money should be used for the monthly cash requirement.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.10,565,628 and the corresponding deficit in the preceding year was Rs.2,097,926. Accordingly, an improvement of Rs.12,663,554 in financial result was observed. The increase in government grants receipts and the increase in interest receipts for investments had mainly attributed to this deterioration.

2.2 Ratio Analysis

According to the financial statements submitted for the audit, the current ratio of 4.1 in the previous year had decreased to 2.9 in the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to transfer the land with buildings belonging to the Irrigation Department which has been running a student hostel for 24 years to the Institute of Indigenous Medicine, even until May 2023.	The acquisition activities of the land is in progress.	Acquisition works should be expedited.
(b) The agreements made with the students for the 90 Tab computers that were procured at a cost of Rs.	As per the agreement, Tabs had been given for a period of one year but due to an	Actions should be taken to renew the contracts.

5,602,500 in the year 2021 to provide omission, it could not be renewed. to the students had expired on 27 June 2023. But according to the agreement, the institute had not taken any action to get back the computers or to renew the agreements even by 10 August 2023.

3.2 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>According to the Cabinet of Minister’s Decision No. 17/1578/716/031 dated 01 August 2017, the consultancy, design and construction of the three-storied building, to be completed in 321 days using NERD Technology subject to a maximum limit of Rs.50 million, was awarded to the Sri Lanka Engineering Research and Development Center (NERDC) at an estimated cost of Rs.47,588,255 (tax exclusive) in 2022. 522 days had spent as of 10 August 2023 and a sum of Rs. 58,868,965 had to be paid. NERD had appointed a sub-contractor for this without approval, contrary to paragraph 04 of the contract agreement.</p>	<p>Due to the unstable situation in the country, although it took more time, an extension of 150 days has been approved and arrangements have been made to charge liquidated damages. This was done without legally informing the client and as the institute was a research institute, they had no employees to carry out the contracts.</p>	<p>Action should be taken to speed up the construction minimizing the cost and utilize the building.</p>

4 Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>(a) The physical and financial progress of 44 activities out of 79 activities planned under the action plan of the year 2022 was less than 50 percent.</p>	<p>The progress was low as the field trips, workshops and medical clinics were limited due to the inflation situation and epidemic conditions in the country and due to allocations were not received and cutoff allocations.</p>	<p>Action should be taken to achieve the Progress as planned.</p>
<p>(b) The dropout rate of students studying Ayurveda and Unani degrees at the Institute of Indigenous Medicine had increased from 12 percent to 27 percent in the years 2020, 2021 and 2022.</p>	<p>The percentage of dropout of students had increased due to reasons such as turning to other degree courses of students, studying Ayurveda and Unani degrees in the Indigenous Medicine faculty, canceling the degree course due to personal reasons, and failing exams.</p>	<p>Action should be taken to minimize the dropout rate of students.</p>