

Institute of Indigenous Medicine affiliated to the University of Colombo for the period from 01 January 2023 to 28 February 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Indigenous Medicine for the period from 01 January 2023 to 28 February 2023 comprising the statement of financial position as at 28 February 2023 and the statement of financial performance, statement of changes in net assets and cash flow statement for the period 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute for the period from 01 January 2023 to 28 February 2023, and of its financial performance and its cash flows for the two months period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Matters to Emphasize

As disclosed in Note No. 1.7 under Accounting Policies, with the approval and recommendations of the University Grants Commission and the Minister of Education, the Special Gazette No. 2319/22 dated 13 February 2023 has been published to transform the Institute of Indigenous Medicine into a Faculty of the University of Colombo from 01 March 2023.

1.3 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 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.

1.4 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.

1.5 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.

1.6 Audit Observation on Preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non- Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
(a) A sum of Rs. 28,628 received from the sale of goods during the year were not recorded under investment activities in the cash flow statement which was prepared in the indirect method according to Sri Lanka Public Sector Accounting Standard 02 and the interest receivable of Rs.673,848 in respect of the period under review was recorded as interest received in cash. Further, although the value to be adjusted under working capital adjustments as pre payments was zero, a sum of Rs. 629,957 had been recorded.	Action will be taken to rectify the deficiencies.	Cash flow statement should be prepared accurately according to accounting standards.
(b) Action had not been taken to acquire and account for the 0.1765 hectare land with buildings belonging to the Irrigation Department which use for the student hostel of the Institute of	The approval of the Director General of Irrigation and the consent of the Honorable Governor of the Western Province to hand over the land to the Institute of Indigenous	All assets used for operational activities should be accounted for in accordance with Section 14 of Sri Lanka Public Sector

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| <p>Indigenous Medicine for a period of 24 years, according to the 14 of Sri Lanka Public Sector Accounting Standards 07. Also, 158 items of fixed assets related to 3 categories had not been valued and capitalized under office equipment.</p> | <p>Medicine through a free hold certificate has been given on 09.03.2022, and accordingly, the necessary further action is being carried out.</p> | <p>Accounting Standards 07.</p> |
| <p>(c) Since residual value and useful life time of the property, plant and equipment had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, according to the statement of financial position as on 28 February 2023, library books which had a carrying value of zero and costed for Rs.33,080,665 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.</p> | <p>According to paragraph 44 of Public Sector Accounting Standard No. 7, library books is an asset which is difficult to determine the value. As such, it was mentioned in the 2019 audit report that due to the value or useful life time of library books will not be easy to determine and not practical, they should be revalued or disclosed through notes in the accounting statements. The value of fully depreciated library books by 2022 has been disclosed in the notes to the financial statements. The method of revaluation of library books in other universities will be checked and necessary instructions will be given to act accordingly in the future.</p> | <p>According to Section 65 of Sri Lanka Public Sector Accounting Standard 07, the residual value and useful life of property, plant and equipment should be reviewed annually.</p> |
| <p>(d) According to paragraphs 12 and 93 of Sri Lanka Public Sector Accounting Standard 11, all the gross inflows of economic benefits or service potential received and receivable by the reporting entity should be recognized as a revenue. But the research grant of Rs. 3,050,000 received on 01 February 2023 was not accounted for as a revenue of the institute.</p> | <p>This amount received for a research by Prof. Dr. Harapatdeniya was not taken as income of the institute. This amount has not been spent in the months of January and February. Action will be taken to follow the instruction indicated by the audit in the future.</p> | <p>According to Sri Lanka Public Sector Accounting Standard 11, it should be recognized as revenue.</p> |
| <p>(e) According to paragraph 118 of Sri Lanka Public Sector Accounting Standard 20, intangible assets costing for Rs.5,339,763 were shown under computers and printers instead of being shown as a separate asset class in the statement of financial position.</p> | <p>At present, intangible assets are included in the fixed asset register as a separate asset class and will be shown in the statement of financial position as a separate asset class in the future.</p> | <p>Accounts should be kept according to Sri Lanka Public Sector Accounting Standards.</p> |

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Payable expenses for the period from 01 January 2023 to 28 February 2023 total amounting to Rs.3,508,314 had omitted from the financial statements.	Out of the values of the document submitted by the audit, the value of Rs.3,722,760 has been included in the accrual schedule.	All expenses related to the period should be accounted for.
(b) According to the bank confirmations received for the investments, the investment interest receivable was overstated by Rs. 518,610, the cash balance was understated by Rs. 565,556 in the statement of financial position as at 28 February 2023, and the investment interest income in the financial performance statement was understated by Rs. 46,945.	It is agreed with regard to the matters pointed out regarding the investments. The accurate values will be shown in the accounts as on 31.12.2023.	Investment interest income should be correctly identified and accounted for.

1.7 Accounts Receivables and Payables

1.7.1 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
A sum of Rs.81,785 to be paid for the examination duties related to the years 2020 and 2021 was not settled even until the date of audit of 07 December 2023.	Action will be taken to settle.	Prompt action should be taken to settle the payable balances.

1.8 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 396	Twenty six cancelled cheques, not presented for	As per F.R. 394, cheques will be canceled only if no other cheque is issued in	Date expired cheques not presented for

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| | | payment, total
valued for
Rs.76,651 were not
dealt with as per
the financial
regulations. | lieu thereof. The relevant
cheques have been cancelled
in terms of F.R 396. The
cheque will be kept in the
temporary cancellation
account for payment in case
of make a request again. | payment should be
dealt with as per
Financial
Regulations 396. |
| (ii) | Financial
Regulation 772
and Asset
Management
Circular No.
10/2022 and
Circular dated 09
September 2022 | Although the
differences and
disposals identified
in 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. | In accordance with the
Financial Regulations 772
and Asset Management
Circular No. 10/2022 dated
09.09.2022, arrangements
were made with the
Government Factory and
Railway Depot Department
to dispose of the materials
identified as scrap items in
2020 and 2021. We were
informed by the letter dated
27.02.2023 that the
department does not have
the necessary technology to
dispose of these goods and
recycle them. That the
relevant goods will be
disposed of. | Actions on
differences and
disposals identified
in annual board of
surveys should be
taken promptly. |
| (iii) | Third Schedule
of the Financial
Regulations of
the Democratic
Socialist
Republic of Sri
Lanka and
Treasury Circular
No. 842 dated 19
December 1978 | Although the fixed
asset register
should be
maintained in
accordance with the
referenced
regulations which
can be used as an
internal control
instrument,
contrary to that, a
separate register
was maintained for
each year and the
details of the lands
were not included
in it. | The fixed asset register is
maintained through a
software system. Printouts
have been obtained for
submission to audit in
respective years. That the
details of the lands are also
included in it. | The fixed asset
register should be
maintained in
accordance with the
referenced
regulations which
can be used as an
internal control
instrument. |
| (b) | Circulars | | | |
| i | Circular Letter
No.
BD/HRD/126/ | Although the
money recovered
on bond violations | Action had been taken as per
the University Grants
Commission Circular No. | As per the referred
circular letter, the
amount recovered |

	214/19/2023 dated 18 January 2023 addressed to the Secretary of the Education by the Secretary to the Treasury	should be credited to the government revenue soon after receiving, contrary to that, a sum of Rs. 4,230,939 recovered on bond violations had been invested in fixed deposits with the approval of the Finance Committee.	737 had been followed.	on bond violations should be credited to the government revenue soon after recovered.
ii	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 remitted to the treasury.	In the 486th management board meeting held on 24.01.2022, the board of management decided that the Indigenous Medicine Institute is an independent institution established by a separate act, it is appropriate to collect the vehicle sales amounts to the institution's fund and use it.	According to the circular referred to, the proceeds from the sale of vehicles should be remitted to the treasury.

1.9 Cash Management

	Audit Observation	Comments of the Management	Recommendation
(a)	The excess money in 04 bank current accounts maintained by the institution had been invested under Over Night Deposit under "Money Market" investment account from 17 September 2019 and by 28 February 2023 a total interest of Rs. 7,463,524.73 was earned and on that day the favorable balance of those investments account was Rs.22,718,252 (as per bank confirmation). Although the approval of the National Budget Department was requested for these investment plans on 30 July 2020, the approval was not received until the date of audit of 22 May 2023.	A favorable balance in the Surplus Cash Investment Account of Rs. 22,718,252 has been shown along with the money invested in all the four bank accounts.	Treasury approval should be obtained to invest government funds
(b)	The Cabinet has approved on 19 June 2013 to transfer the money only to the Institute of Indigenous Medicine obtained by selling a portion of 10.08 perches of land owned by the institution to a private institution in the year 2014. Although the money should have	A part of the money was used to procure a bus for the institute and to build a lecture hall in the institute and it was	The money should be used for the monthly cash requirement of the Institute of Indigenous Medicine.

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.

planned to use the balance of the money for the improvement of the old semi-permanent building of the institution in this year.

2. Financial Review

2.1 Financial Result

Operating result for the period from 01 January 2023 to 28 February 2023 was a deficit of 4,256,922.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Although the percentage of dropout rate of students who follows Ayurveda and Unani courses in the Institute of Indigenous Medicine in the years 2020, 2021 and 2022 was in the range of 19 percent to 27.5 percent, the management had not paid attention to investigate and take necessary measures in this regard.	The students following Ayurveda and Unani program in the Institute of Indigenous Medicine faculty were left out and postponement of the degree course in the years 2020, 2021, and 2022 due to various reasons such as moved to another degree course, cancellation the degree course due to personal reasons, not being able to renew the registration for the next year due to failing the exams, and request to follow the degree program with junior student groups due to various reasons.	Actions should be taken to reduce the dropout rate of students studying Ayurveda and Unani courses in the Institute of Indigenous Medicine.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Ribbons and toners worth of Rs. 128,063, which could not be used for more than 4 to 12 years, had remained in the stores by the date of audit of 09 August 2023 due to the procurement was made without taking in to account of the requirement.	That the respective toner types are used.	Procurement should be made considering he requirement.

3.3 Delays in Projects or Capital Work

Audit Observation	Comments of the Management	Recommendation
<p>According to Cabinet Decision No. 17/1578/716/031 dated 01 August 2017, relating to the handing over of consulting, planning and construction work to the Sri Lanka National Engineering Research and Development Center, subject to a maximum limit of 50 million using NERD Technology, the construction of the three-storied building at an estimated value of Rs. 42,588,255 (excluding tax) was assigned to Sri Lanka National Engineering Research and Development Center (NERDC) on 20 December 2021. According to the work plan presented for the construction of the building, although 321 days were planned to complete the construction, 522 days were spent for completion and a total sum of Rs.68,821,252 (tax free) had been paid including the price variation of the total construction contract amounted to Rs. 26,607,210.</p>	<p>Due to the unstable situation in the country at that time, the economic situation in the country, Struggling campaign, the imposed of curfew in several instances, and the shortage of material required for construction services, the period of 321 days for completion in the agreement and 150 days of extension of time, it should be handed over to the university on 06 April 2023. Accordingly, arrangements have been made to charge Liquidated Damages after that date as per the agreement. That the work has been completed and handed over on 01 May 2023.</p>	<p>Construction work should be expedited and attention should be paid to get the economic benefits that can be obtained.</p>