

Institute of Fundamental Studies of Sri Lanka - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Fundamental Studies of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Best Accounting Practices

The following observations are made.

- (a) Even though the property, plant and equipment should be depreciated from the date of purchase in accordance with the best accounting practices, depreciation of provisions amounting to Rs.1,084,985 had not been made for the property, plant and equipment valued at Rs.17,287,793 purchased during the year under review.

- (b) Even though provision for depreciation should be made for the property, plant and equipment valued at Rs.212,961,539 purchased from Government grants in accordance with the best accounting practices, it had not been so done.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) The value of two motor vehicles received as Government grants valued at Rs.15,200,000 had been credited to the Fund Account of the Institute instead of being debited to the Motor Vehicles Account and credited to the Grants Account.

- (b) Even though sums of Rs.29,893,202 and Rs.3,268,811 had been transferred from the Fixed Assets Account and the Depreciation Provision Account respectively to the Assets Elimination Account with the expectation of elimination of 08 items of assets of the Institute including laboratory equipment, tools and furniture during the year, and the net difference thereof amounting to Rs.26,624,391 had been shown under the current assets, those equipment had not been eliminated even by 31 March 2013, the date of audit.

- (c) The value of 02 items of equipment valued at Rs.784,470 given on loan basis under the Rizobium Project by the Postgraduate Institute of Science had not been brought to account.
- (d) The 10 per cent administrative income amounting to Rs.171,972 and Rs.449,944 relating to the Solar Asia Conference and the International Conference on the Application of Natural Materials for Agri-Health held in the year 2011 had been inappropriately credited to the Specific Research Fund Account instead of being credited to the Prior Year Adjustment Account.
- (e) Eight Water Purifiers had been constructed in the year under review under the Deyata Kirula Programme 2011 and instead of the administrative charges amounting to Rs.496,000 receivable by the Institute in that connection a sum of Rs.456,000 had been brought to account. Thus income had been understated by a sum of Rs.40,000.
- (f) Instead of debiting the value of the pantry cupboard purchased in the year under review amounting to Rs.149,363 to the Furniture and Equipment Account, that had been debited to the Auditorium and Rooms Maintenance Account. As such the fixed assets had been understated and the maintenance expenditure of the auditorium and rooms had been overstated in the year under review.
- (g) The spare parts valued at Rs.3,947,500 received by the Equipment Maintenance Unit of the Institute as a grant from the Japan International Co-operation Agency Project had not been included in the financial statements.

1.2.3 Unreconciled Control Accounts

Non-reconciliations amounting to Rs.211,293,252 were observed between the balances according to the accounts and the balances according to subsidiary registers.

1.2.4 Accounts Payable

Action had not been taken for the settlement of 07 balances of accounts payable amounting to Rs.138,509 existing from the year 2010.

1.2.5 Lack of Evidence for Audit

The following evidence relating to 05 items of account valued at Rs.14,985,603 had not been furnished.

Particulars	Value	Evidence not made available
	Rs.	
Bank of Ceylon 1	1,102,328	Make-up of the Balance
Bank of Ceylon 2	2,414,237	Make-up of the Balance
Bank of Ceylon 3	28,617	Make-up of the Balance
Bank of Ceylon 4	8,171,609	Make-up of the Balance
Fixed Assets Elimination Account	3,268,812	Make-up of the Accumulated Depreciation on the Assets eliminated
Total	14,985,603	

1.2.6 Non-compliance with Laws, Rules and Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Treasury Circular No. 1A1/2002/02 of 28 November 2002 Paragraph 02	Even though a Register of Assets should be maintained for computers and accessories, such a register had not been maintained for computers and accessories valued at Rs.2,186,110 purchased during the year under review.

(b) Financial Regulations of the
Democratic Socialist
Republic of Sri Lanka

Financial Regulation 110

A Record of Losses had not been maintained.

Financial Regulation 371

(i) Even though ad hoc sub-impressts should be settled immediately after the completion of the purpose, 13 advances totalling Rs.1,332,784 obtained during the year under review had not been settled even by March 2013.

(ii) Even though advances not exceeding Rs.20,000 can be granted as ad hoc sub-impressts, in 17 instances advances exceeding such limit by Rs.107,536 had been granted in the year under review.

1.2.7 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) A Temporary Field Assistant not included in the estimate for the CCD Drumstick Project had been paid Rs.60,000 and Rs.50,000 as the salary for the year 2011 and from January to May 2012 respectively.
- (b) Advances totalling Rs.290,216 paid to suppliers and existing from the year 2006 had been debited to the Research Fund Account without being settled.

2. Financial Results

According to the financial statements presented, the working of the Institute for the year ended 31 December 2012 had resulted in a deficit of Rs.127,993,524 before taking into account the Government grant and after taking into account the Government grant of Rs.104,000,000 received for recurrent expenditure, the deficit amounted to Rs.23,993,524. The deficit for the preceding year before taking into account the Government grant for recurrent expenditure amounted to Rs.107,979,876 and after taking into account the Government grant of Rs.93,407,000 for recurrent expenditure that deficit amounted to Rs.14,572,876. The deficit for the year under review after taking into account the Government grant for recurrent expenditure as compared with the preceding year, indicated a deterioration of Rs.9,420,648 and that deterioration had been due specially to the increase of depreciation on fixed assets for the year under review by a sum of Rs.18,849,944.

3. Performance

Contrary to Section 4(e) of the Institute of Fundamental Studies Act, No. 55 of 1981, expenditure amounting to Rs.1,190,788 had been incurred in the year under review from the Research Fund established for the fundamental and future studies, on activities which did not relate to researches. The said expenditure included items such as the purchase of books published by the researcher himself, rectification of expenditure incurred over the provisions made and adjustments made to the Equipment Maintenance Account.

3.1 Management Inefficiencies

The following observations are made.

- (a) According to the letter No. SJ/2/A/153/PE dated 14 December 2011 of the Senior Assistant Secretary to the Ministry of Technology and Research, the posts of Co-ordinating Officer and the Assistant Librarian are not entitled to obtain academic allowance. Nevertheless, the Assistant Librarian and the Co-ordinating Officer of the Institute had been paid academic allowance of Rs.232,742 for the year 2012 and Rs.1,270,243 in respect of the preceding year totaling Rs. 1,502,985.

- (b) Research equipment valued at Rs.123,574,650 existing from the year 2008 had remained idle.
- (c) The property, plant and equipment valued at Rs. 267,350,094 shown in the financial statements as at 31 December 2012 had been insured for a value of Rs.344,057 under fire insurance by Sri Lanka Insurance Corporation. As such the assets belonging to the Institute had not been insured for the correctly assessed value.
- (d) An Insurance Scheme had been implemented for the Officers and employees from the year 2007. The contribution of the Institute for the value of insurance during each year had been determined at a higher percentage than that of the officers at the discretion of the management. Details of 02 years are given below.

Year	Insured Value	Value of Insurance Installments			
		Contribution of the Institute	Percentage	Contribution of the Officer	Percentage
	Rs.	Rs.		Rs.	
2012	525,302	400,000	76	125,302	24
2011	514,750	500,000	97	14,750	3

- (e) Since the inception of the Institute, it had been under the purview of the Presidential Secretariat and in terms of the Notification published in the Gazette Extraordinary dated 30 April 2010, the Institute had been brought under the purview of the Ministry of Technology and Research. The Act had not been amended in accordance with the changes made.
- (f) Income amounting to Rs.1,041,300 had been earned during the year under review from the marketing of Soya Bean Fertilizer produced under the Rizobium Project transferred to the Institute on 31 August 2011 despite the unavailability of provision in the Institute of Fundamental Studies Act.

3.2 Operating Inefficiencies

The following observations are made.

- (a) The Institute conducts the fundamental studies as local researches relating to 17 research areas. According to the research proposals it should be able to reach conclusion at the end of researches and to take decisions according to the conclusions. Even though 19 Research Scientists had been recruited for the purpose and salaries amounting to Rs.38,982,892 had been paid to them in the year 2012, reaching conclusions on researches and taking decisions on such conclusions for the benefit of the Sri Lankan community had not been done.
- (b) Even though salaries totalling Rs.8,851,555 had been paid for the same period to 06 Scientists in 03 Research Project Areas, the information on the work done individually by those Scientists had not been revealed.
- (c) An equipment called - 80 Freezer had been purchased in April 2011 for Rs.1,745,305 without following the Procurement Procedure and the suppliers had refunded only Rs.1,366,835 to the Institute in the year 2012 as the equipment was not in working order. Thus a financial loss of Rs. 378,470 had been occurred. Action had not been taken in terms of F.R. 156 for the recovery of the loss from the officers responsible.
- (d) The Institute had been given provision amounting to Rs.12,000,000 for the installation of 10 water purifiers in the North Central Province to improve the suitability of water under the Deyata Kirula Exhibition. Even though a feasibility study had to be done for expenditure exceeding Rs.500,000 in terms of Section 5.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, 08 water purifier units out of those had been constructed without conducting a feasibility study and obtaining formal approval. The balance 02 water purifiers had not been constructed and action had not been taken to refund the sum of Rs.2,400,000 relating thereto.
- (e) A sum of Rs.77,000 for the conduct of a workshop on suitability of water in the Jaffna District had been received with the letter No. STD/3/67VO/11 dated 16 January 2012 of the Senior Assistant Secretary (Technology Transfer) of the Ministry of Technology and Research and the Institute had spent a sum of Rs.316,046 for the conduct of the workshop. As such a sum of Rs.239,046 exceeding the money received had been spent from the Fund of the Institute without obtaining the approval of the Board of Management.

- (f) The balance sum of Rs.539,486 remaining from the provision made available by the Central Provincial Department of Education for the conduct of a Workshop for widening the knowledge of science among teachers had been credited to the Vidukirana Project Account without formal approval and without taking action for the refund of the money.

3.3 Transactions of Contentious Nature

The following observations are made.

- (a) According to the letter No. DMS/E2/62/7/277 dated 11 April 2011 of the Director General of Management Services, the staff should comprise 14 posts of Technology Officers and 15 posts of Management Assistants. Nevertheless, appointments at higher salary scales had been made in the year under review for 12 posts of Senior Technological Officers, 03 Senior Staff posts and 04 posts of Senior Staff Assistants.
- (b) According to the Scheme of Recruitment to the post of Secretary of the Institute of Fundamental Studies, the age on the last date of accepting applications should not exceed 50 years. Contrary to that, an individual who had passed the age of 50 years on 07 April 2012 had been recruited to the post of Secretary and that officer had been paid a sum of Rs.290,140 as salaries in the year under review.
- (c) According to the Memorandum of Understanding entered into in connection with the Project for Improvement of Suitability of Water, mobilization advance of 25 per cent can be paid. However, advances amounting to 389 per cent had been granted in the year under review for 06 Water Purification Units. The value of advances granted over the above limits amounted to Rs.5,201,000.

3.4 Idle and Underutilized Assets

The following observations are made.

- (a) Even though 32 items of assets valued at Rs.49,382,082 remained without being used, action had not been taken either to repair and use those or take any other course of action. As such those had been lying idle.
- (b) A stock of 118 items of chemicals comprising outdated chemicals valued at Rs.11,757 and unused chemicals valued at Rs.688,004 had been retained in the stores as at the end of the year under review.

- (c) A water purifier equipment purchased at a cost of Rs.1,126,509 had not been effectively used for research work.
- (d) A stock of 1229 glass goods purchased in the year 2006 for the Tissue Culture Improvement Project had been lying idle without being used for that project or for any other purpose.
- (e) The balances of 08 Research Funds existing from the year 2009 to the year 2011 amounting to Rs. 891,250 had not been utilized.

3.5 Uneconomic Transactions

An officer of the Ministry of Technology and Research in the post of Casual Typist Grade III had been paid a sum of Rs.489,856 as salary from February 2011 to October 2012 by the Institute without doing any work for the Institute in accordance with the letter dated 01 February 2011 of the Co-ordinating Secretary to the Minister of the Ministry of Technology and Research. The expenditure for the year under review included in that amount had been Rs.244,565 and the expenditure on temporary salaries had been overstated by that amount.

3.6 Identified Losses

According to the Board of Survey Report for the year under review, 161 items of assets valued at Rs.542,600 had been misplaced while 10 items of assets valued at Rs.17,115 had been destroyed.

3.7 Delayed Projects

The following observations are made.

- (a) Even though the buildings constructed by the Department of Buildings by utilizing the advances granted for 04 constructions in the years 2009 to 2011 had been completed and handed over to the Institute, the balances of advances amounting to Rs.1,352,831 remaining outstanding as at 31 December 2012 had been shown inappropriately under advances instead of taking action for the recovery of the balance of advances.

- (b) The advances amounting to Rs.1,097,478 granted in the year 2010 for the surveys done for the identification of the hot water springs in the Ampara, Puttalam and Trincomalee Districts had not been settled even by the end of the year under review.

3.8 Staff Administration

The following observations are made.

- (a) Six trainees had been recruited for posts not included in the approved cadre. After the training they had been deployed in service as trainees from the year 2009 to the year 2013 and paid salaries totalling Rs.1,466,283.
- (b) An officer serving in the post of Laboratory Assistant had been employed in service in the Colombo Office from the year 1998. Even though there was no evidence that the officer had been performing the duties of her substantive post, she had been paid Rs.4,055,703 as salary for the period of relevant year.
- (c) Three external Scientists not included in the approved cadre had been recruited without formal approval. Even though they had worked for half the day, salaries amounting to Rs.857,828 had been paid in the year 2012 under review treating that they had served for full days.
- (d) Two officers recruited in the years 1999 and 2000 had been placed in the posts of Deputy Accountant and the Assistant Librarian without formal approval and had been paid Rs.1,119,251 as salaries in the year under review.

3.9 Motor Vehicle Utilisation

Payment of Motor Vehicle Hire Charges

Even though a motor vehicle can be used for the duties of the Director of the Institute subject to a limit of hire charges at Rs.40,000 per month in terms of paragraph 02 of the Treasury Circular No. 353(3) of 31 August 2004, hire charges at Rs.49,900 which exceeded that limit had been paid from 01 January 2012 and a sum of Rs.118,800 had been overpaid in the year under review.

4. Accountability and Good Governance

4.1 Corporate Plan

According to Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Corporate Plan should be updated each year and should be forwarded to the Auditor General, the Treasury, the line Ministry and the Department of Public Enterprises at least 15 days before the commencement of each year. However, it had not been so done in respect of the Corporate Plan for the years 2012 to 2015.

4.2 Internal Audit

Even though the Internal Audit Program for the year under review was expected to cover 20 areas, only 03 areas had been covered by the Internal Audit.

4.3 Board of Management

The following statements that should be presented to the Board of Management monthly in terms of Section 4.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been presented.

- (a) Operating Reports for the month
- (b) Cash Flow statements for the month
- (c) Liquidity position and borrowings
- (d) Procurements of material value, especially non-current assets purchased during the month
- (e) New recruitments and Human Resources Statement including cadre position

4.4 Procurement Plan

Even though a Procurement Plan for works and services should be prepared by the Institute in terms of Guideline 4.2.1 of the Government Procurement Guidelines, such Procurement Plan had not been prepared despite entering into works and services contracts amounting to Rs.38,734,065 during the year.

4.5 Budgetary Control

According to Section 5.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the budget should be used as a working document for the achievement of the long term goals of the Corporate Plan and for the achievement of the targets set for the year ahead. Nevertheless, there were under-provisions amounting to Rs.20,237,526 for 03 Objects of Expenditure and over-provisions amounting to Rs.5,504,733 for 11 Objects of Expenditure and savings of entire provisions amounting to Rs.400,000 made for 02 Objects of Expenditure. As such the budget had not been made use of as an effective instrument of control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director from time to time through my reports . Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Assets Management
- (c) Human Resources Management
- (d) Stock Control
- (e) Conduct of Researches