

## **National Science Foundation - 2014**

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The audit of financial statements of the National Science Foundation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 40 of the Science and Technology Development Act, No. 11 of 1994. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810) that are in line with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation’s preparation and fair presentation of the financial statements 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 internal control of the Foundation. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

#### **1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report

### **2 Financial Statements**

#### **2.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the National Science Foundation as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **2.2 Comments on the Financial Statements**

##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

All assets and liabilities had not been stated in sequence of liquidity in the statement of financial position in terms of Sri Lanka Public Sector Accounting Standard No 01. Out of the distress loan balance amounting to Rs. 4,822,697 recoverable as at the last date of the year under review, the balance that would take more than a year for recovery had not been identified , not stated under the non-current assets.

##### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) Amortization had not been accounted on the annual depreciation amounting to Rs. 382,690 for the container office building constructed under Government grants.
- (b) Action had not been taken to adjust unidentified direct debits amounting to Rs. 141,311 stated in the bank reconciliation statement, to the statement of income.

### 2.3 Accounts Receivable and Payable

Action had not been taken to settle creditor balances totaling Rs. 789,649 that remained outstanding for more than 02 years as at 31 December 2014.

### 2.4 Non-compliance with Laws, Rules, Regulations, and Management Decisions

The following Non-compliances with Laws, Rules, Regulations, and Management Decisions were observed.

<u>Reference to Laws, Rules, Regulations , and Management Decisions</u>	<u>Non-compliance</u>
(a) Regulation 371(c) of Financial Regulations of Democratic Socialist Republic of Sri Lanka.	Although ad hoc sub imprests should be settled as the intended tasks are completed , cash advances totaling Rs.1,726,100 given in 09 instances, had not been settled ,and out of that , advances amounting to Rs.266,600 had remained unsettled for more than one year.
(b) Section 3.4.1(a) of Procurement Guidelines	Bids had not been invited at least from 05 institutes for the 20 computers valued at Rs. 2,040,000 purchased in the year under review.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operations of the Foundation for the year ended 31 December 2014 had resulted in a surplus of Rs.9,478,985 as contrasted with the corresponding deficit of Rs.4,401,216 for the preceding year. Accordingly, an improvement of Rs.13,880,204 in the financial result for the year under review had been indicated. The surplus in the financial result had mainly been caused due to the increase of recurrent grants by a sum of Rs.22,894,000.

#### **4. Operating Review**

##### **4.1 Performance**

The following observations are made.

(a) The Foundation had concluded 54 researches worth of Rs. 80,016,591 in the years 2012, 2013, and 2014 , out of which , 02 research papers had been submitted for the assignment of technology with regard to elementary and applied researches concluded in the year 2014. Although a sum of Rs. 9,700,000 should have been granted in that regard, only a sum of Rs.100,000 had been granted by 31 December 2014.

(b) Recommendations are made by a Committee after evaluating the final reports of the research projects. The following weaknesses were observed with regard to such reports.

- (i) Unusual delays in the conclusion of researches and presentation of final reports.
- (ii) Failure to present the final reports conforming with a standard.
- (iii) Failure to achieve the objectives.
- (iv) Despite the report being recommended as successful, the research is confined to a mere report.
- (v) Failure to encourage the implementation in a manner productive to the country once the reports are evaluated.

##### **4.2 Management Inefficiencies**

As the activities related to a grant are complete, the donee should settle the saving together with the final report. However, a sum of Rs. 2,798,134 had not been settled by donees with regard to 09 researches.

##### **4.3 Identified Losses**

Due to underpayment of contributions to the Employees Trust Fund from January 2006 to December 2012, a surcharge of Rs. 408,301 had been paid.

##### **4.4 Operating Inefficiencies**

The following observations are made.

(a) An agreement valued at Rs. 2,999,000 had been entered into with the University of Colombo School of Computing on 15 February 2011 for the computerization of management information system of the Foundation. The computerization process should

have been completed by 14 June 2012 though, it had not been completed even by the end of the year under review , and an expense of Rs. 1,157,100 had incurred in that regard.

(b) Equipment valued at Rs. 9,132,365 had been granted by the Foundation during the year under review.

(i) According to the agreement governing the grant, once purchased, the equipment should be inventoried by the institute, and a copy should be sent to the Foundation together with a copy of the receipt. Nevertheless, it had not been so done with regard to 05 grants of equipment valued at Rs. 7,486,653.

(ii) Although a maintenance agreement should be signed between the supplier and the relevant institute after purchases had been made, such a maintenance agreement had not been entered into with regard to 02 grants.

(iii) According to the guideline on the preparation of progress reports, the first progress report should be submitted within a year after grants had been made; however, it had not been so done with regard to 07 grants.

#### **4.5 Idle and Underutilized Assets**

The following observations are made.

(a) The management had not taken any action on Man and Biosphere Fund and Scientific Reserve Fund that remained inactive since the year 2010 with sums of Rs. 1,829,977 and Rs.6,747,380 respectively.

(b) Funds of 04 bank account balances totaling Rs. 5,798,120 as at 31 December 2014 had remained underutilized.

#### **4.6 Uneconomical Transactions**

A sum of Rs. 632 million had been invested in the shares of Nanco Private Limited from 2008 to 2011. Ordinary share certificates and preference share certificates valued at Rs. 19,050,909 and Rs. 45,248,286 respectively had been issued under the name of the Foundation. According to the Gazette Extraordinary No 1736/23 published on 14 December 2011, the relevant company was functioning under the purview of the Ministry of Technology and

Research. The Foundation had not received any benefit whatsoever in the year under review that ended as at 31 December.

#### **4.7 Personnel Management**

The following observations are made.

- (i) Nineteen posts remained vacant as at 31 December 2014 including 14 executive posts.
- (ii) An external investigation officer had been appointed to look into the administrative issue on the appointment of Accounting Officers for the Foundation; however, action had not been taken even up to March 2015 to act accordingly by conducting investigations.
- (iii) Action had not been taken to conduct efficiency bar examinations as necessitated by the recruitment procedure approved by the Department of Management Services.

### **5. Accountability and Good governance**

#### **5.1 Action Plan**

Although the Action Plan should state how the financial and physical targets should be achieved, it was not possible to evaluate the physical performance as the physical targets had not been included in the Action Plan presented by the Foundation.

### **6. Systems and Control**

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

- (a) Control of fixed assets
- (b) Stocks control