

# Sri Lanka Institute of Fundamental Studies - 2010

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## 1. Financial Statements

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### 1.1 Opinion

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Institute of Fundamental Studies had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters, referred to in paragraph 2.2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Sri Lanka Institute of Fundamental Studies as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

### 1.2 Comments on Financial Statements

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#### 1.2.1 Best Accounting Practices

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Even though the depreciated value of 15 types of fixed assets, the total cost of which was Rs.371,946,503 as at 31 December 2010 had become zero, those assets had not been revalued and brought to account, despite they are being continuously used.

#### 1.2.2 Accounting Deficiencies

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The following matters were observed.

- (a) Action had not been taken to adjust in the accounts the losses, shortages, non usable and excesses valued at Rs.2,483,241 relating to 7 types of fixed assets shown in the Boards of Survey reports for the year 2010. Action had also not been taken to write off the 19 disposed items of goods valued at Rs.39,050 from fixed assets.

- (b) As the expenditure amounting to Rs. 203,391 to be adjusted on the accrual basis relating to the previous year had been adjusted to the financial performance statements by spending during the year under review without being adjusted to the Fund of the Institute, the net deficit of the year under review had been over stated by that amount.
- (c) A provision of Rs. 300,000 had been made in respect of the payment of festival advances to the officers for the next year without approval and it had been shown under current assets.

### 1.2.3 Non reconciliations

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The following matters were observed.

- (a) A difference of Rs. 126,325 was observed in 4 items of fixed assets stated in the financial statements and the Boards of Survey reports.
- (b) A difference of Rs. 5,247 between the physical stock and the book balance in respect of 4 items shown in the Boards of Survey reports and a difference of Rs.49,419 between the values shown in the financial statements and the Boards of Survey reports in respect of 5 items for the year under review were observed.

### 1.2.4 Accounts Receivable and Payable

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The following matters were observed.

- (a) Ad-hoc advances of Rs. 613,786 paid to staff grade officers in 24 instances for foreign purchases had been shown in the financial statements without being settled for the period ranging from 04 to 16 years.

- (b) Action had not been taken to settle 2 balances totaling Rs.5,300 and 2 balances totaling Rs.4,575 remaining for more than 3 years and 5 years respectively shown in the supplies and services creditors schedule. Five other creditors balances totaling Rs. 112,044 and 2 other expenses balances of Rs. 27,457 remaining for more than 5 years and 4 years respectively had also not been settled.
- (c) As the confirmation of balances in respect of 22 creditors and accrued expense balances totaling Rs.768,629 shown in the accounts were not made available, the accuracy of those balances could not be established.

#### 1.2.5 Lack of Evidence for Audit

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The correctness of the balance of retired members fund account amounting to Rs.2,020,836 could not be satisfactorily vouched in audit due to the non - availability of retired members particulars, financial statements of the fund as at 31 December 2010.

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

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Instances of non-compliance with the following laws, rules, regulations etc. observed in audit are given below.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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(a) Institute of Sri Lanka Fundamental Studies Act No. 55 of 1981 Sections 03 and 04 (a) and (h)	Rules for the fulfillment of research activities have not been adopted and got them approved.

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| (b) Financial Regulations 396(d)   | Action had not been taken in respect of 8 cheques valued at Rs.5,895 issued but not presented for payment after the elapse of 06 months.                        |
| (c) Circular Letter No. 01/2001 dated 17 July 2001 of the Central Province Commissioner of Revenue | Turnover tax of Rs.2,014 in respect of purchases valued at Rs.201,432 had not been recovered and remitted to the Provincial Commissioner of Revenue.            |
| (d) Clause 17 of the agreement for the operation of canteen  | Action had not been taken to obtain an insurance coverage valued at Rs.100,000 from the canteen contractor for the use of equipment belonging to the Institute. |

## 2. Financial and Operating Review

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### 2.1 Financial Review

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#### 2.1.1 Financial Results

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According to the financial statements presented, the operation of the Institute for the year ended 31 December 2010 had resulted in a deficit of Rs. 7,154,194 as against the surplus of Rs. 143,221 for the preceding year. Increase in personal emoluments by Rs. 12,524,447 and increase in maintenance expenditure by Rs. 2,923,119 had been specially effected to deteriorate the financial results by Rs. 7,297,415 as compared with that of the preceding year.

## 2.2 Operating Review

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### 2.2.1 Performance

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The following observations are made.

- (a) In terms of section 2 (4) of the Act No 05 of 1997 as amended by the Institute of Sri Lanka Fundamental Studies Act No.55 of 1981 it is stated that action should be taken to consider the national needs to improve its safety. Nevertheless, the research projects had not been formulated in order to fulfill the national needs. Out of the research projects carried out since the inception of the Institute, the final results of such research projects had not been utilized for the improvements of the relevant fields practically , except 4 projects. It was further observed that patent rights had been obtained in respect of only one research project.
- (b) The total research publications published in the local and foreign journals during the year 2010 amounted to 41 and the expenditure incurred to salaries of the research staff and the research allowances during the year under review amounted to Rs. 24,885,818. It represented an average expenditure of Rs. 606,971 per publication as compared with that of the total publications published.
- (c) Even though the period of 10 to 23 years had elapsed since the research projects were commenced, it was observed at an audit test check carried out on 30 May 2011 that the incompleted number of research projects amounted to 20.
- (d) Even though an expenditure of Rs. 41,044,148 consisting of salaries and research allowances for the Scientists, Research Assistants, Technicians including research staff amounting to Rs. 35,922,063 and Rs. 5,122,085 respectively had been incurred during the year under review, an evaluation had not been carried out to ensure whether researches had been carried out identifying the local needs and what kind of contributions made to the society and community by those researches.

### 2.2.2 Operating Inefficiencies

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6877 of Research Publications valued at Rs.810,061 printed during the period 1993 to 2000 had remained unsold as at 31 December 2010.

### 2.2.3 Uneconomic Transactions

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The following matters were observed.

- (a) A sum of Rs.140,000 for the purchase of “Popham Arbotam and Woodlands Estate” on 13 August 1989, and a sum of Rs.312,387 as its legal fees and gratuities and Rs.2,671,122 as maintenance expenses and personal emoluments had been incurred by the Institute for the period 1989 to 31 December 2010. Nevertheless, the administration of this estate for the period of 20 years from 01 May 2005 to 30 April 2025 had been given to an organization by a memorandum of understanding. According to that agreement any benefit is not ascertained by the Institute and that land had not been utilized for research activities even up to the end of the year under review. The statements of accounts relating to the administration of the estate had not been prepared and not made available for audit up to the year under review.
  
- (b) Despite water and electricity had been provided at the expense of the Institute by incurring a sum of Rs.358,553 for providing tea to the staff of the Institute during the year under review, a contract had been entered into for the monthly payment of Rs.25,000 to the contractor to operate the canteen. As such the payment of Rs.3,970,003 made to the canteen contractor for the period 1999 to 2010 had been observed as an uneconomic expenditure.

#### 2.2.4 Idle and Underutilized Assets

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Six types of laboratory and other equipment valued at Rs.71,135,242 remained unutilized for more than 20 years had been lying idle in the laboratories of the Institute.

#### 2.2.5 Corporate Plan and Action Plan

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The Corporate Plan of the Institute had not been prepared under main components stated in the paragraph 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, and the approval of the Board of Control had also not been obtained for it.

#### 2.2.6 Audit and Management Committee

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Even though at least 4 meetings of the Audit and Management Committee per year should be held in terms of paragraph 7.4.1 of the public Enterprises Circular No. PED/12 of 02 June 2003 even a single meeting had not been held during the year 2010.

#### 2.2.7 Internal Audit

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An Internal Audit Unit, to strengthen the internal control of financial and operating activities had not been established in terms of Financial Regulations 134(2) and (3).

#### 2.2.8 Human Resources Management

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A budget to control the human resources management had not been prepared in terms of Chapter 9 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

### 2.2.9 Budgetary Control

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The following matters were observed.

- (a) Significant variances were observed between the estimated expenditure and actual expenditure relating to 7 expenditure items ranging from 13% to 95% thus indicating that the budget had not been made use of as an efficient instrument of management control.
- (b) The expenditure incurred in excess of the estimated provisions relating to 3 items of expenditure amounted to Rs. 1,567,000 and the proper approval therefore had not been obtained.

### 3. Systems and Controls

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

- (a) Assets management
- (b) Maintenance of records
- (c) Stock control
- (d) Conducting researches