

Institute of Fundamental Studies of Sri Lanka - 2013

The audit of financial statements of the Institute of Fundamental Studies of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, 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 36(4) of the Institute of Fundamental Studies of Sri Lanka Act, No. 55 of 1981. My comments and observations which I consider should be published with the Annual Report of the Institute 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). 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 judgments, 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 Institute'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 Institute's internal control. 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 powers to the Auditor General to determine the scope and 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 of 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 Institute of Fundamental Studies of Sri Lanka as at 31 December 2013 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 Financial Statements

2:2:1 Sri Lanka Public Sector Accounting Standards

Even though prior year adjustments amounting to Rs.2,396,227 should be adjusted to the opening balance in terms of Sri Lanka Public Sector Accounting Standard No. 3, that had been adjusted to the operating results for the year under review, thus resulting in the overstatement of deficit for the year.

2:2:2 Accounting Deficiencies

The following observations are made.

- (a) Two vans received as Government grants had been adjusted to the Fund of the Institute without being considered as a Government grant. Instead of obtaining a recognized assessment in accounting for the value of those, the assessed value of Rs.15,200,000 for insurance purposes had been used.
- (b) Out of the laboratory equipment and furniture valued at Rs.26,624,391 brought forward in the preceding year under current assets with the intention of elimination from the Institute, item of assets valued at Rs.24,915,351 had been shown under current assets even in the year under review without being eliminated.
- (c) Travelling expenses totalling Rs.57,848 payable to 3 officers of the Institute had been shown under supplies and services creditors instead of being shown under accrued expenses.
- (d) Assets disposed of in the preceding years and assets confirmed as physically not available according to the Reports of Boards of Survey valued at Rs.658,020 continued to be shown as current assets in the financial statements.

2:2:3 Unreconciled Control Accounts

A decrease of Rs.314,639 was observed between the balances of 07 items of account according to subsidiary records and the ledger.

2:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even up to the end of the year under review for the settlement of 03 creditors balances payable amounting to Rs.131,968 existing over a period exceeding 05 years.
- (b) Even though foreign advances amounting to Rs.105,851 had been granted to a private institution of supply services the relevant goods had not been supplied to the Institute even by the last day of the year under review.
- (c) Confirmation of balances relating to 17 supply and service creditors balances valued at Rs.825,751 had not been received.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
<hr/>	<hr/>
(a) Public Finance Circular No. 438 of 13 November 2009	No action whatsoever had not been taken over on unused assets valued at Rs.2,994,823 identified by the Board of Survey for the year 2013.
(b) No. RD/PAYE/REG/01 of 07 March 2011 of the Commissioner General of Inland Revenue and Budget Proposal 2011.	<ol style="list-style-type: none">i. Pay As You Earn Tax amounting to Rs.212,884 for the year 2013 had been under-recovered from 19 Members of the teaching staff of the Institute.ii. Pay As You Earn Tax amounting to Rs.14,373 recovered on arrears of salary had not been remitted to the Commissioner General of Inland within the specified period.
(c) Employees' Provident Fund Act, No. 15 of 1958 and the Letter No. PRA/EST/11 dated 24 August 2001 of the Commissioner General of Labour.	As study allowance is not interpreted as a cost of living allowance, that allowance should not be made applicable for contributions to the Employees' Provident Fund, the Pension Fund and the Employees' Trust Fund. But, the total sums paid contrary to the above instructions in respect of the teaching staff of the Institute to the Funds referred to above amounted to Rs.1,002,418.

- (d) Financial Regulations of the
Democratic Socialist
Republic of Sri Lanka

Financial Regulation 110

Even though there were 04 accidents to motor vehicles in the years 2012 and 2013 a Register of Losses and Damage had not been maintained to record those.

- (e) Treasury Circular No. 842 of
19 December 1978.

A Register of Fixed Assets had not been maintained in terms of the Circular.

2:4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) According to the circular No. 26/2010 dated 31 December 2010 of the Secretary to the Ministry of Public Administration and Home Affairs, no recruitment on temporary, casual, substitute, contract or relief bases to the posts in the Public Service without the prior approval of the Department of Management Services of the General Treasury. But salaries totalling Rs.919,695 had been paid in the year under review to 09 officers recruited contrary to that ruling.
- (b) Thirteen Journals valued at Rs.2,285,906 furnished to audit had not been approved.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the deficit for the year ended 31 December 2013 amounted to Rs.28,164,597 as compared with the corresponding deficit of Rs.24,050,040 for the preceding year. As such the financial results for the year under review as compared with the preceding year indicted a deterioration of Rs.4,114,557.

3.2 Analytical Financial Review

The deficit as compared with the preceding year had increased by Rs.4,114,557 mainly due to the increase of the loss from the sale of fixed assets in the year under review by a um of Rs.1,570,623, the prior year adjustments by a sum of Rs.2,396,227 and the operating expenses by a sum of Rs.6,253,235.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Two hundred and three books obtained from the library of the Institute by 30 officers during the years 1998 to 2012 had not returned despite the elapse of periods ranging from 02 to 15 years.
- (b) It was observed in audit that 17 books not related to researches/ tests had been retained by 08 officers over periods ranging from 01 year to 10 years.

4:2 Operating Inefficiencies

The following observations are made.

- (a) According to Section 5.2.2 of the Circular No. PED/12 dated 02 June 2003 of the Director General of Public Enterprises a feasibility study should be carried out for payments exceeding Rs.500,000. But 8 water purification units costing Rs.9,144,000 had been constructed during the years 2011 and 2012 without carrying out such feasibility study. Out of that 06 water purification units constructed at a cost of Rs.6,013,702 had become inoperative before the elapse of one year.
- (b)
 - (i) In terms of clause 16 of the agreement on the maintenance of the canteen of the Institute of Fundamental Studies of Sri Lanka, accommodation facilities for the manager and the employees of the canteen and stores facilities for keeping goods had been supplied. Instead of recovering a rent for that by the Institute in terms of clause 06 of the agreement, payments amounting to Rs.300,000 at the rate of Rs.25,000 per month had been made to the contractor during the year under review. The Institute had paid a sum of Rs.1,190,003 to the contractor in the year under review for the supply of tea to the officers.
 - (ii) Even though the contractor should supply an insurance cover of Rs.100,000 in terms of Clause 17 of the agreement for the use of equipment belonging to the Institute, such insurance cover had not been obtained from the contractor even by 31 December 2013.

4:3 Idle and Underutilized Assets

The following observations are made.

- (a) Thirty Seven items of fixed assets valued at Rs.1,312,752 had been idling due to the failure to repair and use those or for taking any other course of action. In addition, no course of action whatsoever had been taken on 04 items of broken down goods valued at Rs.8,000.
- (b) An examination of the stores of chemical stocks and the stock verification reports as at 31 December 2013 revealed that 86 items of stocks valued at Rs.548,555 had been non-moving stocks over a long period. Out of that 17 items valued at Rs.220,625 had been stored in deep freezers. No course of action on these items had been taken up to 31 December 2013.

- (c) Sixty seven items of slow moving stocks valued at Rs.334,403 had been kept in the stores.
- (d) Out of the 10 water purification units that should have been installed under the 2012 “Deyata Kirula National Development Programme Water Purification Project and action had not been taken to construct 02 water purification units even by 31 December 2013. It was observed that a sum of Rs.2,341,472 allocated for that purpose had been idling in the Bank Current Account over a period of 02 years and 06 months

4:4 Transactions of Contentious Nature

The following observations are made.

- (a) An overpayment of Rs.415,794 had been made due to the confirmation of appointment in the post of Assistant Accountant, granting promotion and payment of salary by placing on incorrect salary steps contrary to the Scheme of Recruitment.
- (b) The officer functioning as the Secretary of the Research Council and the Board of Management had been paid Rs.1,500 and Rs.2,000 per meeting respectively. The officer recruited for the post of Driver had been paid Rs.2,000 per month in addition to the salary for office work. The total payments made in the year under review amounting to Rs.20,000.
- (c) Rhizobium Project

 - (i) The Research Officer attached to the Rhizobium Inoculant product liquid fertilizer for soya bean under the Rhizobium Project assigned to the Institute of Fundamental Studies on 31 August 2011 by the Postgraduate Institute of Science, had been paid salaries amounting to Rs.505,500 from the provision of the Institute of Fundamental Studies in the year under review.
 - (ii) Even though an income of Rs.2,860,767 had been earned and expenditure of Rs.1,138,178 had been incurred in the year under review, it was observed that the Project is not a Transaction relating to the objectives of the Institute of Fundamental Studies of Sri Lanka.
 - (iii) Action had not been taken by the Institute to obtain the patent rights for the discovery of coir refuse planting medium used for the production the liquid fertilizer called Rhizobium Inoculant product, discovered as a result of the experiments done by the Institute of Fundamental Studies, and as such the products of the Institute amounting to Rs. 2,533,800 had to be marketed through 05 institutions instead of marketing directly.

4:5 Apparent Irregularities

The water bills of Institute for the year under review amounted to Rs.1,294,409. An unusual increase of charges for monthly ranging from Rs.27,668 to Rs.137,110 was observed.

4:6 Underutilization of Funds

The following observations are made.

- (a) As the internal temperature of the Greenhouse No. 111A constructed at a cost of Rs.2,360,000 in the year 2010 had been high, even by March 2013 action had not been taken for its use with optimum efficiency, effectiveness and economy.
- (b) The balances of 05 research funds totalling Rs.512,976 existing over a number of years had not been utilized even during the year under review.

4:7 Transactions in Suspense

Payment of Membership Fees

Even though a sum of Rs.72,112 had been paid for obtaining the membership of different institutions in foreign countries for obtaining the magazines and periodicals, it was not possible to ascertain in audit whether the Institute had actually received the magazines and periodicals.

4:8 Delayed Projects

Action had not been taken even up to 31 December 2013 for the recovery of the advance balance of Rs.1,782,802 receivable as at the end of the year under review out of the advances granted to the department of Buildings in respect of 05 construction.

4:9 Investment of Employees' Gratuity Money

The provision of Rs.15,640,909 made by the Institute for employees' gratuity had not been effectively invested.

05. Accountability and Good Governance

5.1 Corporate Plan

In terms of Section 5.1.3 of the Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises, the Corporate Plan should be updated annually and furnished to Auditor General, the Treasury the line Ministry and the Department of Public Enterprises at least 15 days prior to the commencement of each year. Nevertheless, the Corporate Plan for the years 2012 to 2015 had not been so furnished.

5.2 Internal Audit

The following observations are made.

- (a) Even though the Internal Audit Programme prepared for the year under review covered 21 areas, the internal audit of 13 areas out of that had not been carried out.
- (b) In addition to the financial audit carried out, audit work had not been directed to System Analysis, Performance Analysis and Special Investigations in accordance with the Management Audit Circular No. DMA/2009(1) dated 09 June 2009 of the Director General of Management Audit.
- (c) Even though an Internal Audit Report should be prepared and submitted to the Audit and Management Committee, it had not been so furnished.

5:3 Reporting to the Management

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

- (i) Operating Statement for the month
- (ii) Cash Flow Statement for the month
- (iii) Liquidity position and borrowings
- (iv) Purchase of non-current assets and procurements during the month
- (v) Statement of Human Resources including cadre positions, new recruitments, etc.

5:4 Audit Committee

The Audit Committee had not furnished its observations to the Board of Directors in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the Audit Committee had not brought the following matters to its scope.

- i. Determination of the responsibilities of the Internal Audit Unit and the review of the annual audit plan.
- ii. Review and evaluate internal control systems for all activities of the entity.
- iii. Review of the implementation of the recommendations/ directives of the Committee on Public Enterprises.
- iv. Statements on identified old slow moving and idle stocks and other items.

5:5 Budgetary Control

The annual budget had not been made use of as an instrument for the achievement of the long term goals and objectives of the year in terms of Section 5.2.5 of the Circular No. PED/12 dated 02 June 2003 of the Director General of Public Enterprises.

6. Systems and Controls

Weaknesses 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) Accounting
- (b) Assets Management
- (c) Internal Audit
- (d) Use of Motor Vehicles
- (e) Conduct of Researches
- (f) Personnel Management