

## **National Science Foundation - 2013**

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The audit of financial statements of the National Science Foundation for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Foundation in terms of Section 14(2)(c) of the Finance Act, appear in this report.

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

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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 Auditors' Responsibility**

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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 judgment, including the assessment of the risks of material misstatement 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 Foundation'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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 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 Statement**

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

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Statements of changes in net assets/equity had not been prepared and presented along with the financial statements in terms of paragraph 21 (c) of Sri Lanka Public Sector Accounting Standard 01.

#### **2.2.2 Unexplained Differences**

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The following observations are made.

- (a) According to the Register of Fixed Assets of the Foundation, the value of depreciation on buildings amounted to Rs.2,867,952 whereas the value of same according to the financial statements amounted to Rs.2,988,043 thus showing a difference of Rs.120,091.
- (b) According to the Ledger the balance of the Treasury Deposit Account as at 31 December amounted to Rs.4,032,802 whereas that balance according to the Treasury confirmation amounted to Rs.3,298,965. The reasons for the difference of Rs.733,837 had not been explained.

#### **2.2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions**

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Non – compliances with the following laws, rules, regulations and management decisions were observed.

#### **Reference to Laws, Rules and Regulations**

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#### **Non – compliance**

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- (a) Paragraph 9.1 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
- Even though the prior approval of the Cabinet of Ministers should be obtained to re-employ a retired Government officer in a post of Public Service, two consultants had been re-employed without such approval and paid a sum of Rs.781,238 during the year under review.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 1645 (a) The Foundation owns 07 motor vehicles and action had not been taken in terms of Financial Regulation in respect of those motor vehicles.
- (c) Employees Provided Fund Amendment Act, No.01 of 1985 and paragraph 2 of Section 9 of the Employees Trust Fund Act, No.46 of 1980 In calculating the contributions to the Employees Provident Fund and the Employees Trust Fund in respect of 125 employees of the Foundation the salary including all allowance had not been taken into account.

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented, the operations of the Foundation for the year ended 31 December 2013 had resulted in a deficit of Rs.4,764,926 as compared with the Corresponding deficit of Rs.8,247,108 for the preceding year. Accordingly, an improvement of Rs.3,482,182 was shown in the financial results for the year under review. The increase of Government grants by Rs.9,409,000 had been the main reason for the decrease of deficit.

#### 3.2 Analytical Financial Review

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According to the statement of financial position presented the analysis of working capital ratios of the Foundation are given below.

	<b>2013</b>	<b>2012</b>
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Current Ratio	1:05:1	2:60:1
Liquidly Ratio	0:94:1	2:25:1

The ability to settle short term Liabilities of the Foundation as at the end of the year under review had not been at a satisfactory level as compared with the previous year. Current assets as at the balance sheet date of the year under review represented 32 per cent cash and cash equivalents, and 56 per cent of the stock represented publications stock brought forward over a period of 5 years, the realization of which was uncertain.

### 4. Operating Review

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#### 4.1 Performance

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The following observations are in made.

- (a) Out of the 86 researches valued at Rs.105,445,038 completed by the Foundation in the years 2011, 2012 and 2013 only 9 researches could be practically utilized.

- (b) As the final results of the researches completed during the years 2010,2011 and 2012 had been over other than being local and foreign Scientific publications, use of steam for the Member of philosophy and the Doctor of philosophy postgraduate degrees and being recommendation for the presidential Awards, 67 research grants valued at Rs.81,666,303 had been Limited to report only.

#### **4.2 Operating Inefficiencies**

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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 the management information system of the Foundation and it should have been completed by 14 June 2012. However it had not been completed even up to 10 June 2014 and an expenditure of Rs.1,157,000 had been incurred by the end of the year under review.
- (b) The Foundation did not have a database in respect of research grants given to each Section and the following deficiencies existed in the research grants examined.
  - (i) Even though the period for handing over of the report of 4 researches value at Rs.3,461,802 had expired over period exceeded 01 year trothed extension had been granted.
  - (ii) The evaluations of the report on 09 researches valued at Rs.10,810,722 had taken periods ranging from 02 months to 09 months exactly specific period.
  - (iii) Even though the period of completion of 06 research grants valued at Rs.7,107,584 had expired, the relevant researches had not been completed even by January 2014.

#### **4.3 Underutilized Assets**

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Action had not been taken to utilize the container office building costing Rs.7,284,200 which had been constructed and handed over on 25 December 2013 by a private company, even by the end of the year under review.

#### **4.4 Personnel Administration**

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The approved cadre, actual cadre and the number of vacancies as at 31 December 2013 are given below.

<b>Post</b> -----	<b>Approved</b> -----	<b>Actual</b> -----	<b>Vacancies</b> -----
Executives	63	50	13
Non – Executives	81	76	05
	<u>144</u>	<u>126</u>	<u>18</u>

The following observations are made.

- (a) A retired officer had been employed from March 2009 to 17 December 2013 for the administration and accounting matters and the Manual of Operations (MOP) had been prepared by that officer. Even though it had been submitted to the Department of Public Enterprises on 24 May 2012, the approval thereon had not been given up to 31 December 2013.
- (b) Despite the availing by of Divisional Heads and other staff for the operations of Foundation such as annual reports, publication of magazines Science day programs at regional levels etc., a retired female officer had been employed as a consultant on 27 July 2011 and allowances of Rs.1,012,190 had been paid to her up to 31 December 2013.

## 5. Systems and Controls

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

- (a) Research Grants
- (b) Stock of Publications
- (c) Fixed Assets
- (d) Accounting
- (e) Utilization of Assets