

## **National Institute of Fundamental Studies – 2017**

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The audit of financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 National Institute of Fundamental Studies 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Director of the Institute on 01 May 2018.

### **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 Auditor's 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 Auditing 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 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.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the National Institute of Fundamental Studies as at 31 December 2017 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**

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

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As the useful life of non-current assets had not been reviewed annually in terms of Section 79 of Sri Lanka Public Sector Accounting Standard 07, the non-current assets costing Rs.75,914,655 has been further utilized though, they were fully depreciated. Accordingly, action had not been taken to revise the above estimated error in terms of Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Deficiencies**

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Even though, the depreciation relating to the year for a laboratory equipment purchased for a sum of Rs.623,358 on 02 May 2017 had been Rs.41,500, it was brought to account as Rs.456,50 and as such the depreciation had been overstated by Rs.415,003.

#### **2.2.3 Lack of Evidence for Audit**

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Confirmations of balances in respect of the payable balances for supplies and services valued at Rs.6,306,493 and the written evidence to confirm the physical existence of laboratory equipment, tools and furniture shown under current assets valued at Rs.24,915,351 as at the end of the year under review were not made available for audit.

### **2.3 Receivable and Payable Accounts**

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Even though, over 05 years had elapsed after paying an advance of Rs.55,863 for a private institution to import laboratory materials on 18 March 2013, action had not been taken to obtain the respective goods.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations, etc.</b>	<b>Non-compliance</b>
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(a) Section II of the Finance Act No.38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Even though, the all excess money should invest in fixed deposits, Treasury Bills, short term deposits or any other effective investment with the prior approval of the Minister of Finance, the approval of the Board of Management only had been obtained for an investment of Rs.6,000,000 made by the Institution in the year under review.
(b) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b> <hr/>	
Financial Regulation 101	Action in terms of Financial Regulation had not been taken in respect of 71 office and laboratory equipment valued at Rs.1,212,717, identified as misplaced.
(c) Public Finance Circular No.438 of 13 November 2009.	Action in terms of the Circular had not been taken on 324 goods valued at Rs.4,869,102 removed from use in the year 2015.
(d) Treasury Circular No.842 dated 19 December 1978.	A Register of Fixed Assets in respect of fixed assets amounting to Rs.857,381,928 shown in the financial statements had not been maintained.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results for the year ended 31 December 2017 had been a deficit of Rs.73,960,282 as compared with the deficit of Rs.43,774,796 for the preceding year. Thus, a deterioration of Rs.30,185,486 was indicated in the financial results in the year under review as compared with the preceding year. Increase of expenditure for maintenance and contractual services by Rs.5,533,621 and increase of depreciation by Rs.27,917,592 as compared with the preceding year had mainly attributed for the above deterioration.

In analyzing the financial results for the year under review and 4 preceding years, the deficits were indicated from the year 2013 even up to 2017. However, in re-adjustment of employees remuneration and depreciation of non-current assets to the financial results, the contribution of Rs. 83,417,267 of the Institute in the year 2013 had turned to Rs.124,020,032 in the year 2017.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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The following observations are made.

- (a) In terms of paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, a Corporate Plan should be prepared for a period not less than 03 years and updated that plan annually and should be forwarded to the Auditor General, General Treasury, Line Ministry and the Department of Public Enterprises at least 15 days before the commencement of each financial year with the approval of the Board of Management. Nevertheless, the Institute had not prepared and presented the Corporate Plan accordingly.
- (b) In terms of Public Finance Circular No.01/2014 of Secretary to the Treasury dated 17 February 2014, the annual Action Plan should be prepared to execute the entire objectives of the Institution. Nevertheless, the Action Plan prepared for the year under review had included only the procurement activities of the Institution.

#### **4.1.2 Operating and Review**

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The following observations are made.

- (a) Even though, it was targeted to obtain 4 patent rights for the new innovations through scientific researches in the year under review, only one patent right had been applied.
- (b) Even though, material and equipment amounting to Rs.14,578,967 had been provided during the year for 06 scientists out of 19 scientists of the staff who engaged in research activities in the year under review, no progress had been reported in any research activity.
- (c) According to 10 reports of the research review committee meetings in the year under review presented to audit, the review on research progress of scientists had not been carried out.
- (d) Even though, over 30 years had elapsed from the commencement of the Institute, generally accepted methodologies to evaluate research projects had not been introduced. Even though, the decisions had been taken to create annual evaluation processes of research projects through research council of the Institute held on 28 June 2017, such methodologies had not been introduced even by 16 January 2018, the date of audit. Similarly, the related research activities had been commonly given to the members of the research staff while action had not been taken either to include those into the action plan or to obtain approval of the governing council.

#### **4.2. Management Activities**

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The following observations are made.

- (a) Two cab vehicles revalued at Rs.2,000,000 on 16 February 2015 had been removed from use for over a period of one year. Action had not been taken either to repair and utilize or to dispose of those vehicles.
- (b) Action had been taken in the year under review to write off the advances totalling Rs.57,918 from the books which were granted in 04 instances before the year 1998 for purchase of library books, Laboratory material and other equipment with the approval of the governing council without being taken action to recover.

#### **4.3 Operating Activities**

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Even though, it was mentioned that an insurance cover of Rs.100,000 should be given by the respective contractor for the equipment belonging to the Institution as per the Section 17 of the agreement entered into by the Institution with the contractor who provided the service of maintenance of the restaurant of the Institution on 08 February 2017, the contractor had not given the insurance cover.

#### **4.4 Transactions of Contentious Nature**

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The activities of management and maintenance of the “Ruk Uyana” situated in Dambulla with a land in extent of 34.5 acres belonging to the Institution had been entrusted in the year 2005 to a private institution for a period of 20 years. Even though, it was revealed in internal audit on 25 May 2017, that the above organization had violated the conditions relating to the agreement, a sum of Rs.300,000 had been paid to the respective organization during the year 2017 without being taking proper action thereon even by 26 January 2018, the date of audit.

#### **4.5 Under-utilisation of Provisions**

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The following observations are made.

- (a) Out of the amount of Rs.68,978,379 received by the Institution as Government Capital Grants during the year under review, a sum of Rs.48,507,290 or 70 per cent of the provisions had not been utilized and 26 per cent of the provisions relating to the preceding year as well had not been utilized.
- (b) Even though, a cash balance ranging from Rs.88 million to Rs.154 million as at the end of each month, had been maintained in the Institution, action had not been taken either to utilize that money to achieve the objectives of the Institution or to utilize in an effective investment.

#### **4.6 Identified Losses**

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The following observations are made.

- (a) Three equipment valued totalling Rs.14,053,353 imported in the years 2015 and 2016 had been rejected due to non-complying with the specifications and as such a sum of Rs.1,628,987 paid as custom duty and clearance charges had been deprived by the Institution.
- (b) In terms of Employees Provident Fund Act No.15 of 1958 and the letter of the Labour Commissioner No. ප්‍ර/ආයතන/11 dated 24 August 2001, the academic allowance had not been defined as cost of living allowance and as such, above allowance should not be considered for the contributions of the Employees Provident Fund and for the Employees Trust Fund. Nevertheless, a sum of Rs.2,752,659 had been overpaid as the contributions of the Institution to the above funds on behalf of the academic staff based on the academic allowance paid as per the instructions of the Circular of the University Grants Commission No.1000 dated 08 January 2013 contrary to the above provisions. Even though, it was pointed out in the preceding years, the remittances had been paid to the fund continuously without being taken action to rectify that.

#### **4.7 Staff Administration**

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The following observations are made.

- (a) Twenty eight vacancies had existed in 04 posts of the cadre of the Institution as at 16 January 2018, the date of audit. It was observed that nearly 50 per cent of officers had remained vacant within the approved cadre of the research staff of this Institution which was established for the research activities and also it was observed in audit, that had been a serious hindrance to achieve the preliminary objective of the Institution.
- (b) Even though, the approval had been given by the Letter No.DMS/1608 of the Director General of Management Services dated 29 May 2014 to recruit the officers for 03 years contract period for the post of Deputy Director (Research) action had not been taken to prepare recruitment procedures and to fill vacancies with the approval of the Department of Management Services in terms of the paragraph 03 of above letter.

#### **4.8 Uneconomic Transactions**

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A condition, was included in the agreement entered in to for supply restaurant service for the year under review to supply a person relating to the water lines fixing of the Institution and a sum of Rs.25,000 will be paid monthly thereon. Accordingly, a sum of Rs.300,000 had been paid during year under review without a plan to obtain a suitable service supplier at a least cost based on the requirement.

#### **5. Sustainable Development**

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##### **5.1 Reaching Sustainable Development Goals**

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Even though, every Government institution should be carried out activities in terms of the Circular No.NP/SP/SDG/17 issued by the Secretary of the Ministry of National Policy and Economic Affairs and Year 2030 Agenda of United Nations on Sustainable Development. Nevertheless, the National Institute of Fundamental Studies had not taken action to identify/ establish the Sustainable Development objectives and targets relating to the year under review.

## **6. Accountability and Good Governance**

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### **6.1 Procurement and Contract Procedure**

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#### **6.1.1 Procurements**

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The following observations are made.

- (a) In terms of Section 4.2 of the Government Procurement Guidelines, a Master Procurement Plan had not been prepared by the Institution. According to the format introduced by the Section 4.2.1 of the Procurement Manual, the Time Schedule relating to the procurements had not been included in the Procurement Plan prepared for the year under review.
- (b) Procurement activities for 05 contractual services amounting to Rs.25,870,610 and 05 construction projects amounting to Rs.20,308,138 in the year under review had not been included in the Procurement Plan.
- (c) An agreement had been entered into for a sum of Rs.2,200,000 with a private institution for Development of a Computer System for the Institution on 28 March 2016. The following matters were observed in this connection.
  - (i) The specialized bidding documents obtained from Department of Public Finance had not been used in procuring information technology systems in terms of Section 9.7 of the Procurement Guidelines.
  - (ii) Even though, a sum of Rs.660,000 had been paid on 28 March 2016 as Mobilization Advances, an acceptable advance payment guarantee had not been obtained in terms of Guideline 5.4.4 of the Government Procurement Guidelines.
  - (iii) Even though, the respective work should be completed by 27 December 2016 as per the agreement, the activity had not been completed even by February 2018. Action had not been taken as well to recover a sum of Rs.220,000 recoverable as delayed charges in terms of paragraph 25 of the agreement.
- (d) As the opportunity had not been given to submit bids through mail under registered post in procuring for contractual services in terms of Guideline 6.3.1 (a) of the Procurement Guidelines, the action had been taken by deviating the objective of to provide reasonable, equal and maximum opportunity for the suitable stake holders for the participation of Procurements.
- (e) As non-implementation of proposed projects as planned by Procurement Plan in the year under review, 03 projects had been commenced the work with delays of a period ranging from 06 months to 11 months. Accordingly, it was observed that the Procurement Plan prepared was not realistic and had not been utilized as an effective instrument of control.



### 6.1.2 Deficiencies in Contract Administration

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Even though, the prices approved by the Department of Buildings or the prices approved by the Central Provincial Council with complying to that should be based in preparation of construction estimates, the construction estimates amounting to Rs.18,306,400 had not been prepared by the Institution with complying of those prices. However, a sum of Rs.619,799 had been paid to the Engineer based on the estimates in the year under review.

### 6.2 Budgetary Control

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Variances ranging from 49 per cent to 12,541 per cent were observed between the budgeted income and expenditure and the actual income and expenditure of 06 items in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### 7. Systems and Controls

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

	<b>Area of Systems and Control</b>	<b>Observations</b>
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(a)	Accounting	Non-compliance with certain Sri Lanka Public Sector Accounting Standards.
(b)	Planning	Not planned and implemented research activities so as to execute the objectives of the Institute.
(c)	Stock Control	Action not taken in terms of Financial Regulations in respect of slow moving and idle stocks.