

National Science and Technology Commission - 2018

1.1 Opinion

The audit of the financial statements of the National Science and Technology Commission for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 the provisions in National Audit Act, No. 19 of 2018 and the Finance Act, No.38 of 1971. My report in terms of Article 154 (6) of the Constitution will be tabled in Parliament in due course.

In my opinion, the financial statements give a true and fair view of the financial position of the Commission as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Commission.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Commission and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission ;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Commission is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following matters are observed in this connection.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 5(b) of the Science and Technology Development Act, No.11 of 1994	The activities of the report, reviewing the science and technology activities in Sri Lanka in the preceding year on the use of science and technology by public sector and private sector undertakings, had not been completed. The report for the year 2017 as well had been at the initial stage.	The report on reviewing the science and technology activities relating to the year 2017 could not be completed by entering into and analyzing data during the year 2018 due to the delay in providing information to us by the relevant science and technology institutions. The report on review for the year 2018 has been planned to be completed by the last quarter of the year 2019.	That action should be taken in terms of provisions in the Act.

- (b) Circular No. PED/1/2005 dated 07 October 2016 of the Director General of Public Enterprises. If any officer (i) receives the monthly fuel allowance and the transport allowance, it had been indicated that the motor vehicles or Drivers of the institution should not be deployed in official or private affairs. However, contrary to that, the Director of the Commission had made use of motor vehicles and Drivers of the Commission in 02 instances. The three persons appointed for resolving internal issues of the NASTEC Institute will look into the said matter and action will be taken according to the report thereof. That action should be taken in terms of circular provisions.
- (c) Section (1) (f) of Executive Officers who have completed an active service of 12 years in a post of Senior Level in public enterprises and Non-academic staff in the universities, can obtain a duty free Circular No.1/2010 dated 10 December 2010 of the Secretary to the Treasury. The Director of the Commission has been recruited on 01 January 1999 on contract basis for two years to the post of Science Programme Manager (Grade II). This contract has been That action should be taken in terms of circular provisions.

motor vehicle continuously
permit. However, extended relating
despite having to the said post up
made the service of to 03 July 2003.
the Director of the He has been given
Commission a permanent
permanent on 31 appointment in the
July 2003, a motor above post on 31
vehicle had been July 2003.
imported by him on Meanwhile,
08 June 2011 on a according to
duty free motor Circular No. DMS
vehicle permit, 30, he has been
contrary to absorbed to
provisions in Grade I of the MM
circulars. 1-3 salary code as
at 13.02.2007.

In consideration of
the motor vehicle
permit obtained by
him in the year
2011, he has
completed a
minimum 12 years
of active service
including the
period of contract.
Moreover, if the
period of contract
is not considered,
the minimum
service period of
12 years has not

been completed.
 In the Circular No. TTIP/01/2010(1) relating to the year 2011, it had not been clearly stated whether the period of contract is included/not included in the active service period.

(d) Section 7.4.1 of Public Enterprises Audit Committee Circular No. PED/12 of 02 June 2003 Even though the Audit Committee should be held at least once in 03 months, the Commission had held only one Audit Committee meeting during the year 2018. Even though 04 Audit Committee meetings had been planned to be held during the year, 03 Audit Committee meetings could not be held due to the crisis that existed in the institution during the earlier part of the year, lack of a Chairman, the situation in the country arisen during the end of the year etc. and other unavoidable reasons. That action should be taken in terms of circular provisions

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.4,510,610 as against the deficit of Rs.4,141,953 of the preceding year, thus observing an improvement of Rs.8,652,563 in the financial result. The increase in capital grants by Rs.8,655,500 provided for research and development in the year under review had mainly attributed to the said improvement.

2.2 Analysis of Tendencies in Main Items of Income and Expenditure

The capital grants for research and development which is a main Item of Revenue in the current year, had increased by Rs.8,655,500 and as compared with the preceding year, it reflects an improvement of 85 per cent. The expenditure on research and development has increased relatively by Rs.1,224,376.

2.3 Analysis of Ratios

The current ratio and the quick ratio were 1.12:1 and 1.1:1 respectively in the year 2018, which in the year 2017 were 0.28:1 and 0.26:1 respectively. As compared with the year 2017, an improvement in capital grants had been apparent. The increase in cash and cash equivalents by Rs.7,170,708 in the year under review had mainly attributed to this improvement.

3. Accountability and Good Governance

3.1 Annual Action Plan

The following matters are observed in this connection.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) According to the Annual Action Plan, it had been planned to review 06 institutions. However, only 03 institutions had been reviewed.</p>	<p>The Self-assessment Report receivable from 03 institutions out of 06 institutions approved for the review of the year 2018 had not been submitted to our institution during the year. As such, activities of review of those institutions could not be completed in the year 2018.</p> <p>According to powers vested by the National Science and Technology Improvement Act, with the objective of making an efficient collection of data from institutions, the new Commission is in the process of issuing a Gazette.</p>	<p>According to the Annual Action Plan, activities planned to be performed during the year, should be performed.</p>
<p>(b) Reporting and recommending of policies planned to be carried out in the year 2018 by Study Groups on the current significance relating to scientific and technical problems, could not be completed.</p>	<p>Three policy reports planned to be prepared in the year 2018 have been completed up to draft level. Even though plans were made to formulate three national science and technology policies in line with the ninth Biennial Conference on Science and Technology IX and held relevant scholarly sessions thereafter, the relevant summit was not held in the year 2018. As such, the said policies could not be completed</p>	<p>Action should be taken to carry out activities planned to be performed during the year according to the Annual Action Plan.</p>

during that year.

(c) Even though all three national and technology policies to be completed through **projects on science and technology research and compilation** should be completed during the year, they had not been completed. Three policy reports planned to be prepared in the year 2018 have been completed up to draft level. Even though plans were made to formulate three national science and technology policies in line with the ninth Biennial Conference on Science and Technology IX and held relevant scholarly sessions thereafter, the relevant summit was not held in the year 2018. As such, the said policies could not be completed during that year. Action should be taken to carry out activities planned to be performed during the year according to the Annual Action Plan.

(d) The Commission had not held the Biennial Conference on Science and Technology IX. The Biennial Conference on Science and Technology IX had been planned to be held in November in the year 2018, and headed by His Excellency the President. However, the said conference was not held due to the situation that prevailed in the country during this period and the Commission decided to hold the relevant conference during the year 2019. Action should be taken to carry out activities planned to be performed during the year according to the Annual Action Plan.

3.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
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In terms of Financial Regulation 133, an Internal Audit Unit should be established for appraisal of the operations of the Commission. However, action had not been so taken and audit activities had been covered by the Internal Audit Unit of the Ministry. The said Auditor had not furnished the internal audit reports that the operations of the Commission had been audited, to Audit in terms of Financial Regulation 134(3).	Audit activities are carried out by the Internal Audit Unit of the Ministry	Action should be taken in terms of provisions in the National Audit Act and the Financial Regulations.