

National Science Foundation – 2019

1.1 Opinion

The audit of the financial statements of the National Science Foundation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of financial performance, statement of changes in equity and 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 provisions of the National Audit Act, No. 19 of 2018 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

The financial statements give a true and fair view of the financial position of the National Science Foundation as at 31 December 2019, and of 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 qualified 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 Foundation's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Foundation 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 Foundation.

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 auditor's 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, misrepresentations, 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 Foundation'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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Foundation 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

Foundation and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation;
- Whether the Foundation has performed according to its powers, functions and duties; and
- Whether the resources of the Foundation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Payables

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
-----	-----	-----
Action had not been taken to settle the outstanding balances amounting to Rs.5,520,068 existing from the year 2017 and 2018 and the unidentified deposits of Rs. 134,249 incurred for several years.	Out of the balances of Rs. 5,520,068 for the years 2017 and 2018, Rs. 1,840,575 for audit fees and Rs. 1,370,402 for building maintenance expenses will be settled after receiving the annual allocation and Rs. 6,001 building expenses to be written down in books with the approval of the Board of Management and to be paid as per the agreement for the integrated software program. The due balance of the contractual payment of Rs. 1,803,090 for the integrated software programme will be removed after termination of the agreement with the approval of the Board of Management in accordance with the law instructions.	Appropriate action should be taken to settle the balance.
	The unrecognized deposit of Rs. 124,249 will be identified as various incomes and accounted.	

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Public Administration Circular No. 8/97	Payment of overtime allowances should be limited to a maximum of 20 hours per month and if the maximum limit is required to increase for special reasons, the approval of the Secretary to the relevant Ministry should be obtained on the recommendation of the Head of the Department. Rs.1,125,717 had been paid as overtime allowance from 01 January 2019 to 30 June 2019 without such an approval.	Although the payment of overtime allowances should be limited to a maximum of 20 hours per month as per Public Administration Circular No. 8/97, the approval of the Secretary to the Ministry has not been obtained for overtime made beyond this limit. Pursuant to Circular No. 40 (PED 40) of the Department of Public Enterprises issued by the Secretary to the Treasury, its provisions are substituted only if it is addressed and issued by the Government Businesses and the above 8/97 circular does not address the semi-government agencies. Therefore, we have not applied its provisions.	There is no record of overtime payment in PED 40 circular for government enterprises. Therefore government enterprises should comply with the Public Administration Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 26,874,083 as compared with the corresponding deficit of Rs.31,393,021 for the preceding year, thus indicating an increase of Rs.58,267,104 in the financial result. This growth was mainly due to an increase in recurrent and capital inflows of Rs. 33,500,000 and other receipts by Rs. 11,500,000 and a decrease in capital expenditure of Rs. 30,000,000.

3. Operational review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
<p>(a) OFFICE 365, which had a validity of one year only purchased last year, was valued at Rs. 5,786,158 as Intangible Assets and During the year under review, Rs.5,789,249 was spent on renewing the license of the software and the expenditure had been accounted as development and research expenditure in the income and expenditure account in the year under review. The auditor was not satisfied with the need for such software.</p>	<p>This is a set of software that includes standard office productivity applications such as Word, Excel, PowerPoint, Outlook, file storage services, and collaborative platforms.</p> <p>However, due to the significant cost incurred annually, management has decided to limit the number of existing licenses or move to a cost-effective solution.</p>	<p>These provisions should be used for the purpose of allocating funds for research and development expenditure.</p> <p>Actions should be taken to get maximum benefits from this software or to buy low cost software package.</p>

3.2 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the National Science Foundation sells books, magazines, publications and journals to people in need, it has been observed that the institute has not taken actions to increase sales revenue by adopting successful methods to make the public aware of this. As a result, the total value is Rs. 2,216,470 for 10,265 publications, and 5,833 non-price marked publications were found to be in stock.</p>	<p>According to the NSF Charter, science is popularized in several ways. One is to sell publications to people who want to improve their scientific knowledge. Accordingly, revenue generation from publications cannot be expected. However, publications will be uploaded to the NSF website. In addition, the NSF will publish a list of publications for searching for science books on the Internet. In addition, NSF Publications will be promoted at events organized by the NSF and at other forums organized by outside agencies.</p>	<p>Arrangements should be made to print a suitable amount for marketing promotion or the quantity to be sold or the quantity to be distributed.</p>

- | | | | |
|-----|--|--|--|
| (b) | <p>Checking the working hours of the drivers of the foundation, it was observed that some drivers are on duty for nearly 21 hours daily. This can have a direct impact on the health of employees. Also, passenger safety is a driver's primary responsibility and it is questionable whether passenger safety can be ensured by someone who has been on duty for nearly 21 hours.</p> | <p>Following this situation, the working hours of drivers have been revised with effect from 01 September on the instructions of the Director General. However, overtime payments will be reported to the Board of Management on a monthly basis in accordance with PE guidelines for good governance.</p> | <p>Drivers' daily service hours should be practically serviceable.</p> |
| (c) | <p>Checking the cheque issuing policies of the current account number 0002323270 dated 17 July 2019 it had been observed that the cheques were not issued in the order of the serial number and that the cheques had been issued irregularly and the cheques from 444852 to 444862 had been left blank and the writing of cheques for the month of January 2019 had commenced.</p> | <p>Some of the remaining cheques written for 2018 were issued in January 2019, and the notes were noted to be issued in serial order, considering the matters made. Also, in the future, instructions have been given in writing to issue cheques in the correct serial number order.</p> | <p>Cheques should be issued in the correct serial order.</p> |

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>According to the Equipment Grant Guidelines, equipment should be purchased within 06 months of making the grant, but Rs. 5,353,815 worth of 06 equipment grants given for 2017/18 and out of 06 grants 03 equipment grants worth Rs.2,429,840 had not been purchased as at 30 October 2019 when the date of reply received.</p>	<p>There is a delay in purchase and the following are some observations about the delay. Funds were released in November and December 2018. Therefore, the six months end in May 2019 and June 2019, respectively. However, due to the Easter attack in April 2019, universities were closed for nearly two months, delaying the process of purchasing equipment. However, regular reminders were sent to the grantees reminding them of the purchase of equipment. So far 03 devices have arrived at the universities.</p>	<p>Comply with the Equipment Grant Guidelines.</p>

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>Although the purpose of obtaining equipment for research under the equipment grant is to utilize it for the research conducted by oneself, there was a delay of 01 to 03 years between the date of requesting the grant and the date of awarding the grant for the six grants for the year 2017/2018. Even after the grants were made, it had taken a long time to purchase the equipment.</p>	<p>Equipment grants are awarded not only for a single project or individual use, but can also be widely used for undergraduate and postgraduate projects. Since most research projects take place continuously for 3-5 years, the equipment may be useful for those projects during the latter part of the study.</p> <p>There was a delay in the transfer of funds for the above grants made in 2017, and the capital received by the National Savings Bank was insufficient to meet the funding requirement of the equipment grants. So they agreed to bear the additional funding if the equipment prices had gone up.</p>	<p>Arrangements should be made to provide funds without delay and purchases should be made within the stipulated time as per the equipment grant agreement.</p>