

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the 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 report to parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the institute as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with the 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 determine 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 Institution’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 intend to liquidate the institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the institution’s financial reporting process.

As per the Section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 institute.

1.4 Auditor's Responsibilities 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 the 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 institution'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 Institution'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 Institution 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 Institution, and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with reference to relevant Standard	Management Comment	Recommendation
(a) As per paragraph 65 of Sri Lanka Public Sector Accounting Standards - 07, the Fully depreciated non-current assets at cost of Rs.57,441,349 continued to be used due to non-review of the useful life of non-current assets annually. Accordingly, no action had been taken to revise the error of estimate in accordance with Sri Lanka Public Sector Accounting Standards 03.	After receiving the revaluation report on non-current assets of the institution from the Valuation Department, a document is prepared for the non-current assets and there, further used assets are revised.	Financial statements should be prepared in accordance with the accounting standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The expenditure of Rs. 1,097,477 on a research project from 2010 to 2016 was accounted for under the library books without being identified as intangible assets..	The research project on generating electricity from geothermal energy had been accounted for under library books.	Research and development costs should be accounted for in accordance with the relevant accounting standard.

1.6 Non-compliance with Laws, Rules and Regulations

 The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
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(a) Acts			
Section 14 (1) of the Finance Act No. 38 of 1971	The final annual report for the year 2019 and the draft annual report for the year under review had not been prepared by the month of March 2021.	The 2019 Annual Report has been submitted to the Governing Body and it was noted to make arrangements to submit it to the Ministry as soon as possible.	The provisions of the Finance Act should be followed.
(b) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Financial regulation 756	Although an annual board of survey is required to conduct in every year, the Library of the National Institute of Fundamental Studies has not conducted an annual board of survey since 2019.	A committee has been appointed for this purpose and the committee will conduct book surveys in the library.	Financial regulations should be followed.

ii. Financial regulation 756 (2)	In contrary to Financial Regulations, The board of survey of the institution for the year 2019 had been carried by 06 officers of the Institution including the Storekeeper.	It was noted that in addition to the officials of the National Institute of Fundamental Studies, officials from other government institutions will also get involved in conducting Board of Survey.	Financial regulations should be followed.
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(c) Circulars

Treasury Circular No. 842 dated 19 December 1978	A fixed asset register had not been maintained with respect to fixed assets amounting to Rs. 1,073,884,363.	As there are delays in receiving Fixed Asset Revaluation Reports due to Covid 19 Epidemic, action will be taken to maintain the Fixed Asset Registry by updating the relevant new values as soon as the Revaluation Reports are received.	Circulars should be followed.
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2. **Financial Review**

Financial Results

The Financial result of the year under review amounted to a deficit of Rs.65,293,445 and the corresponding deficit in the preceding year amounted to Rs.79,413,103. Therefore an improvement amounting to Rs.14,119,658 of the financial result was observed. The main reasons for the improvement are increased recurrent grants and other revenue and decreased supply, consumption and maintenance costs.

3. **Operational Review**

3.1 **Management Inefficiencies**

Audit Issue	Management Comment	Recommendation
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Although the land belonging to the Hanthana Estate with the area of 14 acres, 02 Rood, 17.5 perches, was handed over to the	Only a document regarding the ownership of this land has been submitted to the Housing Development Authority on 30th	Action should be taken to take over the ownership of the land legally.
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National Institute of Fundamental Studies by the National Estate Development Board on 08 June 1990, but no action had been taken to take over its legal ownership by the end of the year under review.

June 1990 and After presenting this issue to the Board of Management meeting held on 20th March 2021, we have instructed the legal adviser of our Institute to take further action with this regard.

3.2 Operational Inefficiencies

Following observations are made.

Audit Issue	Management Comment	Recommendation
(a) At maturity, 24 fixed deposits of The National Institute of Fundamental Studies valued at Rs.125,571,722 held at the National Savings Bank had been invested in the same bank without calling any bids from other commercial banks.	In 2017, the National Savings Bank, People's Bank and Bank of Ceylon also called for interest rate bids, but notes were made to check prices from other government banks in the future.	It should call for bids and invest in a bank that offers the more economic benefits.
(b) 05 research project proposals estimated at Rs. 566.6 million that were proposed to be implemented between 2018 and 2020 had not been implemented due to non-approval of the Ministry of Science, Technology and Research.	Research proposals have been submitted but no response has been received. An amended project proposal had been submitted for "Kandy Lake Protection to Ensure its Natural Beauty and Cultural Wealth" but no response has been received so far.	Action should be taken to obtain the relevant approval and implement the projects.
(c) No action had been taken to obtain the relevant patents by the end of the year under review for 03 projects implemented by the National Institute of Fundamental Studies.	Approval had been received only for 02 projects.	The process of obtaining patents should be followed up.
(d) Although an agreement was entered with a private institution on 28 March 2016 to establish an integrated software system for the National Institute of Fundamental Studies, an agreement was reached again on 26 March 2018 due to non-installation of the relevant	It was instructed to complete the work of this system within the next 03 months at the Board of Management meeting held on February 20, 2021 and also the company has refused to re-enter into an agreement, as discussed at the Audit and Management	Action should be taken to get the future work of this system done immediately as per the agreement.

system. The institution had spent Rs.660,000 as advance and Rs.6,864,960 on the purchase of computers and accessories, but the system had not been installed by the end of the year under review.

Committee meeting held on December 20, 2020.

3.3 Human Resource Management

Audit Issue	Management Comment	Recommendation
<p>As per paragraph 9.10 of the Director General of Public Enterprises Circular No. PED / 12 dated June 02, 2003, It was stated that, the existing vacancies should be filled in the short term, In staff management But as at 31 December 2020 there were 27 vacancies in 09 posts in the staff of the National Institute of Fundamental Studies. Out of these, 17 officers were research staffs, which make it difficult to achieve the objectives of the National Institute of Fundamental Studies established for research purposes.</p>	<p>Letters have been sent to obtain the approval of the Line Ministry for recruitment for posts other than Driver / Office Assistant posts and recruitments will be made immediately after that approval is obtained.</p>	<p>Vacancies should be filled immediately as per the circular instructions.</p>

3.4 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
<p>At the end of the year under review, the National Institute of Fundamental Studies had 06 pool vehicles with only three drivers attached. Therefore, this situation was an obstacle to carry out day to day activities of the institution efficiently.</p>	<p>According to Chapter VIII of Management Services Circular 02/2010, As it has been decided to provide the Personnel's required for Primary Service Category (PL-01) Posts by the Department of Presidential Multipurpose Task Force, those instructions will be followed.</p>	<p>Action should be taken to recruit staff so that the activities of the institution can be carried out efficiently.</p>

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
<p>-----</p> <p>In accordance with paragraph 5.1.3 of Public Enterprise Circular No. PED / 12 dated 02 June 2003, Although the Institute shall prepare a Corporate plan for a period not less than 03 years, report and update it and submit it to the Auditor General, Treasury, Line Ministry and the Department of Public Enterprises at least 15 days prior to the commencement of each year after obtaining the approval of the Board of Management, it had not been acted upon.</p>	<p>-----</p> <p>It was noted to make correction.</p>	<p>-----</p> <p>Circular provisions should be followed.</p>

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>-----</p> <p>The post of Internal Auditor had been vacant for more than 10 months in the year under review but no suitable person had been recruited for the post and no internal audit had been conducted during that period.</p>	<p>-----</p> <p>Recruitment process of Internal Auditor is in the final stages.</p>	<p>-----</p> <p>An internal auditor should be recruited and implement the internal audit.</p>

4.3 Budgetary Control

Audit Issue	Management Comment	Recommendation
<p>-----</p> <p>(a) When comparing budgetary expenditure and actual expenditure, It was observed an increase of 88 Percent to 1158 Percent in two expenditure subjects and a decrease of 26 Percent to 98 Percent in 11 expenditure subjects</p>	<p>-----</p> <p>Although there were budget estimates, the budgeted expenditure could not be reached due to the low level of contributions released. As a result, the actual expenditure was lower than the budgeted expenditure, resulting in a decrease of 11 expenditure subjects.</p>	<p>-----</p> <p>Management should focus on preparing realistic budget estimates and acting accordingly.</p>

- (b) The institution had not prepared budget estimates for the expenditure of Rs. 22,848,617 incurred on 05 expenditure subjects during the year under review. Since those expenditures are from the capital contributions received for last year's budget estimates, only those expenditures are shown in the final accounts and those expenditures were not included in the budget estimate for the year under review. Action should be taken to prepare budget estimates that include all expenditure subjects.