

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the National Science and Technology Commission for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 Commission as at 31 December 2019, 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**

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

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**

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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 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 intend 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 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 on the Audit of the Financial Statements)**

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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 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 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 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 Audit Observations on the preparation of Financial Statements

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### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

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Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>According to Section 65 of Sri Lanka Public Sector Accounting Standards No. 7, the residual value of an asset and the useful life should be reviewed at least at the end of each annual reporting period, but the agency did not reasonably estimate the lifespan of the asset. The commission did not reasonably estimate the life time of the assets and observed that the carrying value was zero and the cost was Rs. 2,266,336 and the assets were being used beyond that. For this reason, the depreciation for those assets had not been calculated and the surplus for the preceding year had been exceeded by that amount.</p>	<p>Due to the corona epidemic in the country, the required information was unable to send to the Valuation department for the revaluation. Action was already underway to revaluation all assets this year.</p>	<p>Further usable assets should be revaluated and action should be taken to show fair value in books.</p>

1.6 Non-compliance with rules, regulations, regulations and management decisions etc.

Reference to Laws, Rules, Regulations etc	Non Compliance	Comment of the Management	Recommendation
Financial Regulation 386 (3)	Although it was stipulated that the voucher number should be mentioned in the sub-leaflet of every cheque written, the institution did not comply with it.	The date, name of the recipient of the cheque, the relevant account, and the amount required are written in the sub-form of the written cheques and are recorded and maintained in a separate document in a book for that sub form with the date, voucher number, cheque number, cheque recipient's name, relevant account, required amount, cheque signature of authorized two officers.	Books and documents should include proper information and be kept complete.
Article (1) (f) of Circular No. 1/2010 dated 10 December 2010 of the Director General of Trade Tariffs and Investment Policy	It has been stated that it is possible to obtain a duty free vehicle permit for executives who have completed 12 years holding a senior level post in a state enterprise, but on the contrary the Director of the Commission had imported a vehicle on 08 June 2011 on a duty free vehicle permit. His appointment date was 31 July 2003, and he had been in office for about eight years when the duty-free vehicle was imported. By the end of the year under review, the Commission had not taken any formal action to take disciplinary action or recover damages from the government.	A preliminary inquiry was held into the matter and after considering its recommendations, the officer was suspended without pay salary on 01 July 2020 and a charge sheet was issued. Following the preliminary investigation, a formal disciplinary inquiry is currently underway and steps will be taken to proceed after its completion.	If the government has incurred any losses after completing the disciplinary proceedings, it should take action to recover them expeditiously.

<p>Section 5 (b) of the Science and Technology Development Act No. 11 of 1994</p>	<p>According to the article, a review report on the use of science and technology by public and private sector enterprises in science and technology in Sri Lanka last year should have been submitted, but the report for the year 2019 had not been submitted by 15 July 2021.</p>	<p>Due to the COVID epidemic in 2020, the collection of information in 2019 was delayed as expected. As a result, simultaneous data collection for 2019 and 2020 is underway in 2021 and arrangements are being made to complete the report in the near future.</p>	<p>Action should be taken in accordance with the provisions of the Act.</p>
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**2. Financial Review**

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**2.1 Financial Result**

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The operating result for the year under review amounted to a deficit Rs. 3,308,036 and the corresponding deficit in the preceding year amounted to Rs. 5,347,865. Therefore an improvement amounting to Rs. 2,309,829 of the financial result was observed. This improvement was mainly due to lower payments of contract services.

**3. Accountability and Good Governance**

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**3.1 Tabling of Annual Report in Parliament**

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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<p>According to paragraph 6.5.3 of Public Enterprise Circular No. PED 12 dated 2 June 2003, the Annual Report of the Commission should have been tabled in Parliament in 150 days after the end of the financial year, but the Annual Report for the year 2019 had not been tabled in Parliament by 15 July 2021. .</p>	<p>The Annual Report for the year 2019 was approved at the 212th Commission Meeting held on 18 August 2020 and a copy of the Annual Report was sent to the Ministry on 21 September 2020. The translation work has been completed and arrangements are being made to table 270 printed copies in Parliament in the near future.</p>	<p>Action should be taken according to circular provisions</p>

### 3.2 Internal Audit

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Although provisions were made for the establishment of an internal audit unit to inspect the functions of the Commission, the Commission did not comply with it. However, although the audit was covered by the Internal Audit Division of the Ministry, the Internal Audit Division of the Ministry did not pay attention to the duties of the Commission during the year under review.	Letter No. MTR / 2/14 / NASTEC / Car / Vol II dated 11.08.2020 to manage the internal audit activities of the National Science and Technology Commission by the Internal Audit Staff of the Ministry. Accordingly, it has been decided to increase the staff of the institution in the future and it is hoped to include the post of Internal Auditor.	The internal audit of the institution should be carried out by the appropriate parties.

### 3.3 Audit Committee

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Even though the Audit and Management Committee Meeting should be held at least once in three months in accordance with paragraph 7.4.1 of the Public Enterprises Circular No. PED 12 dated 2 June 2003, the Commission held only one Audit Committee Meeting in the year 2020.	The audit committee meetings for the year 2020 were not held on the basis of government health rules and regulations based on the corona epidemic situation in the country in the first and second quarters. But the meeting for the third quarter was held on 28 July 2020. The meeting for the last quarter was scheduled for December, but could not be held again due to the corona epidemic.	Circular provisions should be followed.