

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Innovation Agency (“Agency”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, 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 Finance Act No.38 of 1971. My comments and observations which I consider should be report to the Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Agency as at 31 December 2022 and 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 Opinion

I conduct 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 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 Agency’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 Agency or to cease operations, or has no realistic alternative but to do so.

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

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

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 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 Agency'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 Agency'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 Company 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 Agency, and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	According to the report of the board of survey conducted for the year 2022, there was a shortage of one laptop computer and an steel chair, but the reasons have not mentioned. Also, those losses had not dealt with as per Financial Regulation 104.	Those shortages were revealed by the board of survey report of 2018 and related explanations have submitted to the Finance Division of the Ministry on 22.02.2021.	According to the provisions of Financial Regulation 104, related investigations should be carried out at the institutional level regarding the lost items.
(b) Section 6.6 of the Operational Manual bearing No.01/2021 and the dated 16th November 2021, issued for the State Owned Enterprises by the Public Enterprises Department of the Ministry of Finance .	A draft of the Annual Report had not submitted with the financial statements.	The year 2022 is the first year of the institute started operational activities. During the year, more attention had been paid to the administrative work related to the permanent establishment of the institution. The work was beyond the control of the institution, and due to the state of confusion in the country that year, it had excessively delayed.	When submitting the financial statements to the Auditor General, a draft of the annual report should also be submitted along with it.

1.6 Cash Management

Audit Issue	Management Comment	Recommendation
The Treasury had given Rs.12,863,900 as recurrent and capital expenditure for the year 2022 to the National Innovation Agency. Rs.11,151,186 of those provisions had been spent by December 31, 2022, but a suitable background had not yet been prepared to fulfill the objectives mentioned in the Act.	As on 31.12.2022, the balance of the cash book was Rs.3,200,022. Out of which Rs. 1,905,000 was the imprest given for capital expenditure. Rs.2 Million funds for capital expenditure had been given to the Agency on 28.11.2022. Since there was not enough time to carry out the procurement process, Rs.1,905,000 has been left out of that amount. That funds is being utilized in the year 2023.	The allocated money should be used to fulfill the objectives mentioned in the Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.6,598,340. The income of the agency for the year under review was Rs.17,749,527 which consisted of treasury grants of Rs.12,863,900 and asset grants of Rs.4,885,627. Out of this income, Rs.9,218,495 as for salary, remuneration and director board allowances Rs.543,533 as for contractual allowances and Rs.1,148,525 was also spent on depreciation.

3. Operational Review

3.1 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
On January 01, 2022, the Ministry of Skill Development, Vocational Training and Innovation has transferred non-monetary assets worth Rs.4,885,627 held at the Coordination Secretariat for Science and Technology Innovation (COSTI) to the National Innovation Agency. The approved carder of the agency was 17 and the actual carder was 11. It was observed that there are excess laptops, desktop computers and chairs compared to the staff of the Agency and they are underutilized.	The agency expects to get the approval for a carder of 41 or more. Accordingly, the existing furniture will have to be given to the officers recruited for the vacancies. Since this is an institute that is involved with external people and people in the innovation process, it is essential to have chairs etc. to hold meetings, discussions etc. with them. Therefore, it is incorrect to consider the furniture held by COSTI as excess and underutilized.	Idle goods should be used for productive purposes.