

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Science Foundation (“Foundation”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets 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 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 Foundation as at 31 December 2023, 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 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

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 Foundation’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 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 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 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 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 and 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>Although fully depreciated, the cost value of assets still in use amounting to Rs.100,250,215, had not been disclosed in the financial statements in accordance with paragraph 92 of Sri Lanka Public Sector Accounting Standards No. 7, whereas the useful life of those assets should be reviewed and made adjustments in the financial statements as per Public Sector Accounting Standard No. 03.</p>	<p>In accordance with Sri Lanka Public Sector Accounting Standard No. 07, the assets still in use, costing Rs.100,250,215, are being identified for reassess in the financial statements. A report was submitted to the Audit and Management Committee in this regard. It is expected to revalue to assets.</p>	<p>Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
An amount of Rs.464,356 paid for the renewal of the Office 365 A3 software license for the period from 5 November 2022, to 4 November 2023, was included in the financial statements as an expense incurred for the years 2023 and 2024. Due to this reason the expenditure for the reviewed year was understated by Rs.392,038 and the prepaid expenditure was overstated by Rs.392,038.	When submitting the documents related to the Office 365 A3 software license for payment, a document properly stating the dates of the license was not included; therefore, the expense was recorded as a 2024 expense in the accounts. However, since it has been confirmed that this expenditure is from November 5, 2023, the relevant corrections will be made in the year 2024.	All expenses related to the year should be included in the financial statements annually.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Observation	Management Comment	Recommendation
The creditor balances, amounting to Rs.2,045,055 over 5 years and Rs.906,895 over 2 years, total Rs.2,951,950 and had not been settled.	The settlement will be arranged as soon as the final report for one of the projects included in the cinnamon project is received. Regarding the remaining funds received from donors for the COVID-19 and Kids Naturalist projects, further actions will be taken based on their advice.	Actions should be taken to settle the payables.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Finance Circular No. 438 dated 13 November 2009	Regarding non-usable assets which actions should be taken on the notification made by the Committee of the Board of Survey 2022, to necessary	Due to the delay in providing the Board of Survey reports in 2022, it was not possible to take appropriate measures regarding the goods identified as unusable by	Actions should be taken in accordance with the provisions of Public Finance Circulars.

- proceedings had not been made. the Committee of the Board of Survey, according to the Public Finance Circular No.438. Those goods will be disposed promptly.
- (b) (a) and (b) in Clause 9.1 of Public Finance Circular No. 01/2020 dated 28th August 2020 Accounting Officer may, at their discretion, authorize an officer under the direct supervision of a staff officer to hold a petty cash advance of up to a maximum of Rs.25,000. On the contrary, the Foundation had given a total of Rs.1,577,900 on 27 instances to three officers of the Management Assistant Service. This cash advance has been taken for fuel expenses. The National Science Foundation has been purchasing fuel on credit for a long time. However, due to the rise in fuel prices with the fuel crisis in the country, that institution has temporarily stopped issuing fuel on a credit basis since August 2022. From that point until July 2023, that decision was implemented. During that period, the institution had to obtain cash advances to supply fuel for its pool vehicles. Actions should be taken in accordance with the provisions of Public Finance Circulars.
- (c) Section 1 of Chapter XIV of the Establishment s Code Combined Allowance and Traveling Expenses are paid to cover the accommodation and subsistence costs incurred by a government officer. However, contrary to that according to the decision of Board of Management in October 2019, and without the approval of the Treasury, the Foundation paid a hardship allowance totaling Rs.11,200 and amount of Rs.68,000 for food In 2019, the Board of Management decided to pay a hardship allowance to encourage staff participation in exhibitions, as it is a very difficult task. According to that decision, a hardship allowance has been paid to the officials who participated in the Mahpola exhibition. Approval for all allowances had paid without the Treasury's approval has already been submitted to the Treasury for approval. Further payments will be made after approval for the Actions should be taken in accordance with the provisions of the Establishments code.

for 18 days to 05 same. Until then, officers participating payments will be made in in exhibitions or accordance with the programs held Establishments Code. outside the institution's premises.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.20,842,305 and the corresponding deficit in the preceding year amounted to Rs.38,548,294. Therefore an improvement amounting to Rs.17,705,989 of the financial result was observed. The main reasons for the improvement were a decrease in capital expenses of Rs. 18,467,208, while other expenses increased by Rs.1,185,223 compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A grant awarding program had planned for science education and promotion programs conducted by schools and universities. Because universities and schools were not awarded about the program, only 05 schools applied for grants, and a total of Rs.690,153 was awarded.	Not agreed with audit observation. The National Science Foundation's Special Science Education Project aims to improve students' science literacy.	To enhance and promote science education in the country, the foundation should aware the schools adequately.
(b)	A total of Rs.8,454,100 was awarded for 02 research projects related to climate changes and national disasters from year 2017. The audit was not satisfied that the conclusions reached were proportionate to the costs incurred due to the decisions taken to change the theme and sample of one project and to limit the sample of the other project.	Not agreed with audit observation. Utilizing the area of greatest influence for study is most effective for critical analysis. This approach confirms that all other locations are less vulnerable to rising temperatures than this area, as adults living elsewhere on the island are less affected by temperature-induced climate effects. To justify the amount spent on the other project, approval was granted to complete the research focusing only on tea and coconut cultivation areas. The results of	Expected observations of the projects which implemented by incurring the government grants should be achieved.

this project will be sufficient to provide recommendations concerning tea and coconut plantations.

- (c) In the year 2023, a total of Rs.15,469,633 was awarded for 04 technical assignment projects, of which 02 projects were completed with delays. The foundation encountered difficulties contacting one grantee from those two projects, while another grantee had retired and moved abroad. For those reasons, the grantees should have acted in accordance with section 8.5.1 of the grant agreement, but they did not.
- According to clause 8.5.1 of the agreement regarding the 03 projects, the principal researcher will arrange to obtain a report on the latest activities related to the projects for a period of 05 years, due by the end of May 2024. In relation with the issue of contacting the grantee of the other project, a confidential report was requested from the Grama Niladari through the Divisional Secretariat, and a complaint has also been filed in the police.
- Regarding the four projects, should be acted according to the agreements and the existing control system should be enhanced.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
During the physical inspection of the stored goods conducted on March 15, 2024, 07 computers, 14 processing units (CPUs), 12 monitors, and 16 keyboards were found to be passively existing, with a total value of Rs.750,750. All of these devices were in usable condition.	These All-In-One computers are a local product manufactured in 2016, and have been removed from service because they can no longer be used in the corporate computer network due to software updates. Sensitive information is removed and disposed of systematically.	Equipment should be utilized effectively.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Management Comment	Recommendation
Although 4 million rupees were allocated for 06 activities in the action plan prepared by the National Science Foundation for 2023, the financial progress was only 18 percent, due to spending 0.72 million rupees during the year. There were 13 instances where the desired targets were not met numerically.	The objectives could not be achieved due to a shortage of staff, transportation difficulties, non-availability of funds on time and challenges in conducting programs and workshops.	Actions should be carried out according to the action plan.