

**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 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information, 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 Institute as at 31 December 2024, 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

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

As per 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 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 risks 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 Institute'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 Institute 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

Institute 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 Institute has performed according to its powers, functions and duties ; and
- Whether the resources of the Institute 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 the Sri Lanka Public Sector Accounting Standards**

	<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a)	In accordance with Sri Lanka Public Sector Accounting Standard 20, the value of six patents held by the Institute as at 31 December of the year under review had not been valued and accounted for as intangible assets.	The Procurement activities have been commenced for currently active patents.	Patents should be valued and accounted for in accordance with Sri Lanka Public Sector Accounting Standards.
(b)	The net difference in employee consumption loan reductions of Rs.1,731,820 had been shown under investing activities contrary to Paragraph 25 (f) of Sri Lanka Public Sector Accounting Standards 02.	This will be corrected in the year 2025.	The cash flow statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(c)	When preparing the cash flow statement using the indirect method, although the differences in net cash flow generated from operating activities should have been adjusted, the foreign currency exchange loss of Rs. 1,302,035 and interest income of Rs. 1,364,682 had not been adjusted.	The loss had been shown under other expenses in the statement of operations and interest income was not included in the statement of financial operations since fixed deposit interest was not relevant to the operations of the Institute.	It should comply with Sri Lanka Public Sector Accounting Standards.

<p>(d) In the calculation of net cash flow generated from operations, although capital receipts of Rs. 77,185,205, which were not in the operation nature, should have been adjusted it had not been so adjusted.</p>	<p>Grants received from the Treasury for recurrent and capital expenditure had been adjusted as income in the calculation of the surplus/deficit during the year under review, and it had not been shown under financial activities in the net cash flow statement.</p>	<p>It should complied with Sri Lanka Public Sector Accounting Standards.</p>
<p>(e) In the preparation of the cash flow statement, instead of showing the interest income received in cash from fixed deposits under investment activities, the difference between the opening and closing balances of the year amounting to Rs. 3,397,068 had been adjusted.</p>	<p>The difference between the opening balance and the closing balance of the net cash statement had been adjusted and, an overstatement of net cash flow is not shown thereon.</p>	<p>Sri Lanka Public Sector Accounting Standards should be complied with.</p>

## 1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
<p>(a) Although the damaged and unusable assets with a net value of Rs.2,719,395 had been removed from the fixed assets account during the year under review due to only deduction of a sum of Rs. 2,719,395 from it had been shown, instead of writing off the whole revaluation reserve of Rs. 10,627,673 relating to the assets being removed, a balance of Rs. 7,908,278 had been shown in the financial statement as the net value of assets shown under non-current liabilities.</p>	<p>Corrections will be made when preparing the financial statements for the year 2025.</p>	<p>Fixed asset disposals should be accurately accounted for.</p>
<p>(b) A sum of Rs. 1,097,477 had been spent on research projects to generate electricity from geothermal energy from the year 2010 to year 2016, and the cost of Rs. 1,097,477 incurred for the research project had been capitalized under library books without assessing the value of the book prepared based on that project.</p>	<p>It has been disclosed under Accounting Policy 2.2.3 that, this will be maintained as a Heritage Assets Mapping Report. It is stipulated to be referred to the Board of Directors for instructions in this regard.</p>	<p>The relevant book should be assessed and accounted for correctly.</p>

(c) Although Rs. 44,253,445 had been incurred in cash for work-in-progress during the year under review, the net difference in work in progress amounting to Rs. 61,649,022 had been shown under investment activities in the cash flow statement. As such, the net cash flow generated from investing activities had been overstated by Rs.17,395,577.

There had been no changes in the investing activities in the cash flow statement as at 31 December of the year under review.

Sri Lanka public sector accounting standards should be complied with.

### 1.5.3 Unreconciled Control Accounts and Records

All observations related to unreconciled control accounts and records are as follows.

Item	Value as per the Financial Statement (Rs.)	Value as per the Correspondent Reports (Rs.)	Difference (Rs.)	Comment of the Management	Recommendation
Lands	233,706,896	233,190,000	516,896	Although the financial statements show the correct value, a printing error in the schedules has occurred.	It should be prepared enabling reconciliations.
Provident Fund					
Investment	201,880,632	197,439,308	4,441,324		

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
Circulars			
(a) Section 11 of the Finance Act No. 38 of 1978.	A surplus amount of Rs.240,658,181 had been invested as at 31December of the year under review, without obtaining the prior approval of the Minister of Finance and the relevant Minister in investing all the surplus funds of the Institute.	According to Article 8a(i) of the Employees' Provident Fund Act, Since the Committee can invest in any legally approved investment scheme, requirement of the approval of the Minister of Finance will not be entitled.	Action should be taken in accordance with the Act.

(b) Financial Regulation 177(1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Although the government funds collected should be remitted daily, there was a delay of 6 to 33 days in remitting the revenue of Rs. 3,220,100 received from tourists for the year 2024 for the Dambulla Arboretum to the Head Office of the National Institute of Fundamental Studies.	Currently, actions will be taken to settle this in properly manner.	Actions should be taken to remit the funds without delay according to Financial Regulations.
(c) Treasury Circular No. 842 dated 10 December 1978	A fixed asset register had not been maintained in respect of fixed assets worth of Rs.1,637,697,057 as at 31 December of the year under review.	Action had been initiated on preparing a new register, correcting the weaknesses in the existing fixed assets register.	Action should be taken according to the circular instructions.
(d) Section 3.2 of the Public Enterprises Circular No. PE 01/2021 dated 16 November 2021.	Although the Annual Report, including performance for the previous year, should be submitted to Parliament in all the three languages within 150 days after the end of the financial year along with the audited report, the National Institute of Fundamental Studies had not taken actions to table the Annual Reports from the year 2020 to year 2023 in Parliament.	Reports for the years 2020, 2021, 2022 and 2023 had been submitted to the Ministry.	In accordance with circular instructions, action should be taken to table in Parliament before the due dates.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 11,932,032 and the corresponding deficit in the preceding year amounted to Rs. 526,174. Therefore, an improvement amounting to Rs. 11,405,858 of the financial result was observed. The increase in recurrent grants and capital transfers and write-offs of revaluation reserves had mainly caused to this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	The solar power system installed at a cost of Rs.16, 994,225 in the year 2019, the Institute had not received the	The Electricity Board had been informed in this regard and necessary actions had been taken	Maintenance activities and supervision activities

	<p>economic benefits entitled for the electricity supplied to the national electricity grid from April 2024. Furthermore, although the software installed in the Institute to monitor the solar power system had been inoperative since 15 October 2023, the Governing authority had not taken any action to repair it even by January 2025.</p>	<p>to restore and repair.</p>	<p>should be carried out properly.</p>
(b)	<p>A cab owned by the Institute cost at Rs. 1,200,000 had been handed over on 23 June 2023 to the Sri Lanka Transport Board, Kandy (Southern Depot), without obtaining the approval of the Board of Directors.</p>	<p>The vehicle had been formally handed over to the Sri Lanka Transport Board, subject to the approval of the Secretary to the Ministry of Education.</p>	<p>Transfers should be carried out after obtaining formal approval.</p>
(c)	<p>Although the Management Committee meeting No. 2018/04 held on 29 December 2018 had recommended the preparation of a Manual of Administrative and Financial Procedures, for the implementation of the operational and accounting functions of the Institute and also 06 years had passed by the end of the year under review, those activities had not been completed.</p>	<p>Presently, the Institute has prepared and drafted the Procedure Manual and the final negotiations of it are in progress. The necessary action will be taken to obtain the relevant approvals as soon as these activities are completed.</p>	<p>The preparation of Manual of Administrative and Financial Procedures should be finalized and implemented</p>

### 3.2 Underutilization of Funds

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	<p>A sum of Rs.695,159 received related to 06 research grants had not been utilized for more than a year.</p>	<p>The procurement activities had been commenced for the currently active patents.</p>	<p>Patents should be utilized in an optimal manner.</p>
(b)	<p>Action had not been taken to market or commercialize 06 patents received in relation to 06 research projects since the inception of the institution, by the end of the year under review.</p>	<p>The procurement activities had been commenced for the currently active patents.</p>	<p>Patents should be utilized in an optimal manner.</p>