

## National Science Foundation - 2024

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### **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 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 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 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 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 Audit Scope**

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 skepticism 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**

	<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	According to the paragraph 53 of Sri Lanka Public Sector Accounting Standard No.01, all numerical information reported in the previous year financial statements on comparative information is required to be disclosed. However, information relating to the statement of changes in equity in the previous year had not been disclosed.	Not replied by the management.	Comparative figures should be disclosed in the financial statement in accordance with Sri Lanka public sector Accounting Standards.
(b)	When correcting prior period errors, the comparative values presented for the period in which the error occurred should be restated in accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standards No.3. However, the foundation had neither restated the comparative values of errors	From the upcoming year (2025) on ward, the arrangement will be made to present them under disclosures.	When correcting prior period errors, the comparative values, presented for the period in which the errors occurred should be restated and disclosed in accordance with

	amounting to Rs.5,041,066 relating to previous period nor provided the required disclosures in line with paragraph 54.		Sri Lanka public sector Accounting Standards.
(c)	The gross carrying amount of fully depreciated but still in use assets, amounting to Rs.101,951,683, had not been disclosed in the financial statements in accordance with paragraph 92 of the Sri Lanka Public Sector Accounting Standard No. 07. Further, required information on fully amortized intangible assets amounting to Rs.8,794,179 had not been disclosed in the financial statements.	Agree with the Audit Observation.	Gross carrying amount of fully depreciated and fully amortized but still in use assets should be disclosed in the financial statements in accordance with Sri Lanka public sector Accounting Standards.
(d)	Even though the grants received from the Treasury were recognized as revenue in the statement of financial performance under Sri Lanka Public Sector Accounting Standard No.11, Foundation had accounted the said grants also as deferred revenue in accordance with Sri Lanka Accounting Standard 20. As a result the non-current liability amounting to Rs.46,547,611 had been overstated at the end of the year. Further, amortization on fixed assets purchased using those grants also had been treated as income, resulting in an overstatement of revenue by an amount totaled Rs.4,487,658.	Not replied by the management.	Grant received should be recognized as revenue in the statement of financial performance under Sri Lanka Public Sector Accounting Standard No. 11.
(e)	It is required to disclose the compensation paid to key management personnel, in accordance with the paragraph 34 of Sri Lanka Public Sector Accounting Standard No.14. However, those information had	Agree with observation.	The compensation paid to key management personal should be disclosed separately in the financial statements in

not been disclosed in the financial statements.

accordance with Sri Lanka Public Sector Accounting standards.

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| (f) The deficit of the year under review had been increased by Rs.8,196,023, since the capital assets purchased under “Mandate 06” were accounted as an expense and as property plant and equipment simultaneously. | Not replied by the management. | Capital assets purchased should be accounted under property, plant & equipment. |
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### 1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
Share certificates or other sufficient appropriate evidence had not been submitted to audit to verify the existence and ownership of the stated investment amounted Rs.883,002,124 in Sri Lanka Institute of Nanotechnology (SLINTEC) by the foundation.	we will take the necessary action to check these with SLINTEC and rectify the matter.	Share certificate or other sufficient and appropriate evidence should be provided to the audit immediately to verify the existence and ownership of the stated investment amounted to Rs.883,002,124.

### 1.5.3 Physical Evidence not made available for audit

Audit Observation	Management Comment	Recommendation
Office Equipment amounting to Rs. 8,868,143 have not been physically verified during the year.	Agree with the observation. We are in the process of reconciling office equipment category of fixed assets. We have physically verified Rs. 98,956,510 value of assets. Due to the several reasons, we have difficulties identifying assets amounting to Rs.8,868,143 physically.	Office equipment which were not physically verified should be identified and accounted immediately.

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

	Reference to Laws, Rules Regulations etc.	Noncompliance	Management Comment	Recommendation
(a)	Section 2(1) and 102 of the Inland Revenue Act No. 24 of 2017.	The foundation had not taken steps to register for income tax or to obtain tax exempt.	NSF has not registered for income tax.	Action should be taken in accordance with Inland Revenue circular.
(b)	(i) Financial Regulation 756 of the Financial Regulations Code of the Democratic Socialist Republic of Sri Lanka amended by Public Finance Circular No.01/2020 dated 28 August 2020.	Board of survey reports for the year under review had not been submitted to the Auditor General and Goods identified as unusable goods at the survey had not been disposed of since 2022.	The approval of the board of management for the board of survey -2024 panels has been given since January 2025 Action will be taken to appoint Board of survey committees on or around 15 <sup>th</sup> of each year since 2025.	Board of survey reports should be submitted to the Auditor General and unusable goods which were identified should be disposed.
(c)	Financial Regulation 876(1) of the Financial Regulations Code of the Democratic Socialist Republic of Sri Lanka	The NSF Development Fund had been established by the Foundation and credited a sum of Rs.327,701 to the fund without the approval of the Treasury.	Not replied by the management.	Formal approval for establish a fund should be taken from the Treasury.
(d)	Section 6.6 of the Operational Manual for the State Owned Enterprises introduced by Public Enterprises Circular	The annual report should be presented to the parliament within 05 months after the end of the financial year, However, the annual reports for the year 2022 &	Due to the severe staff constraints, preparation of annual report for the year 2022 and 2023 got delayed and the selected translators took long time to complete that task However, the annual report for the year 2022	According to the Operational manual, the Annual reports should be presented to the Parliament within 05 months after end of the year.

No.01/2021 dated 16 November 2021	2023 had not been presented to the parliament.	has been submitted to the Ministry in August 2024 to obtain cabinet approval enabling to submit to parliament and response from the ministry is being awaited.
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| (f) | National budget<br>circular<br>No.01/2024<br>dated 10 January<br>2024 | The foundation had<br>received Rs.<br>119,161,136 for 29<br>research projects<br>completed in the<br>years 2023 and<br>2024. After the<br>completion of the<br>relevant work<br>amounting to Rs.<br>5,519,522 remained<br>from those<br>provisions. A<br>thought remained<br>amounts were to be<br>remitted to the<br>treasury it had not<br>been remitted by<br>the foundation | Not replied by the<br>management | Retained grant<br>amount should be<br>remitted to the<br>treasury<br>immediately. |
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.5,081,473 and the corresponding deficit in the preceding year amounted to Rs 21,234,344. Therefore an improvement amounting to Rs.16,172,871 of the financial result was observed. This increased was mainly caused due to an increase in treasury grant by Rs.75,058,196 compared to the increases in staff emoluments by Rs.12,837,325 and capital expenses by Rs.43,589,827.

## 3. Operational Review

### 3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Although Rs. 270 million had been allocated from the budget for six research mandates for the financial year 2024, only Rs. 69 million had been utilized during	NSF functioned without a Board of Management in the latter part of the year where higher quantum of fund utilization which was not permissive was	Budgets and plans should be prepared after considering the practical situation. Action

the year. This low level of fund utilization arises concerns regarding potential inefficiencies in project planning and execution. beyond NSF control. We should be taken to received the first tranche of funds only in June. Since the half a year had passed we are achieve the expected objectives from the approved provisions. having remaining only six months to work on the budget. In the prevailing turbulent circumstances, a significant number of active researchers left the country resulting in a low number of grant applications and inferior quality than expected which was unforeseen and beyond our control.

- (b) The cash book credit balance includes an amount of Rs.2,045,055 outstanding for three years and Rs.851,287 outstanding for six years, and no action has been taken by the foundation to settle these dues. Credit balance of Rs.2,045,055 consists of the money needed to be settled to the ministry of primary industries for the cinnamon project. Which conducted by the University of Ruhuna and has reported over expenditure in the financial statements. The NSF has not agreed with the said amount, Once the correct statements is received, the action will be taken to settle it as soon as possible. Due to the non-completion of evaluation of grant funded by the Vishwa Parami Fund, of the final progress report and the financial statement, the balance amount couldn't be returned. Action should be taken to settle or invest appropriately.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

Audit Observation	Management Comment	Recommendation
According to the NSF action plan for the year 2024, the progress of achieving objectives had been decreased from 8.5 percent to 50 percent for 07 instances.	Not replied by the management	Plans should be prepared after considering the practical situation. According to the action plan, prepared the action should be taken to achieve.