

National Science Foundation - 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Science Foundation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and 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 the 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, the financial statements give a true and fair view of the financial position of the National Science Foundation as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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 determines 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 matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

As per Sub-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 Scope of Audit (Auditor's Responsibility 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's / Department's / District Secretariat'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 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. 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 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>According to paragraph 5.1 of the Research Projects Guide, even though the semi-annual financial progress of a grant should be submitted to the Foundation on June 15 and on December 15 of each year, and the final financial report of the completed research projects should be returned to the Foundation within one month after the completion of the project, no action had been taken in such manner regarding the cumulative value of Rs. 8,282,388 relevant to 13 research projects.</p>	<p>Beneficiaries have been informed to settle the remaining balance. Reminders have been sent.</p>	<p>Action should also be taken to immediately recover government grants held by external parties by reporting financial progress in accordance with the guidelines.</p>

1.5.2 Payables

Audit Observation	Comments of the Management	Recommendation
<p>No action had been taken to settle the audit fee balance of Rs. 2, 375, 175, which remained for several years.</p>	<p>Agreement has been sent to the Ministry to pay the audit fees of Rs. 2,375,175 as pointed out by the audit observation. Payment will be made upon receipt of the annual provision.</p>	<p>Action should be taken to make payables.</p>

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Public Enterprise Circular no. PED2/2015	The National Science Foundation has paid total amount of Rs. 6,456,170, up to the approved monthly maximum limit, to 45 officers entitled to telephone allowance without paying attention on communication bill value contrary to the above circular provisions by the National Science Foundation during the period of 32 months from May 2018 to 31 December 2020.	<p>Payment of Communication Allowances has been made from 01.06.2015 to the officers as per National Science Foundation PED 2/2015 Circular. However, due to the complexity of the bill reimbursement, from May 2018, the expenses incurred in the relevant month for all communication bills will be certified in writing by the relevant officer with the approval of the governing body, and the requested amount will be paid in the next month subject to the maximum limit. As this methodology is controversial, an investigation is currently conducted by the Commission to Investigate Bribery or Corruption and further steps will be taken on payments from May 2018 to December 2020 based on its decision.</p> <p>At the same time, from February 2021, the above payments have been completely stopped and the system of obtaining bills from the officers in accordance with the circular and reimbursement of those bills has been resumed.</p>	Provisions in the Circular should be followed.

(b)	Procurement Guideline	The service of a consultant was hired to carry out the procurement on the basis of payment of 5% of the contract value and the procurement guideline for selecting a consulting firm was not followed.	No answers have been received.	Action should be taken in accordance with the procurement guideline.
(c)	Paragraphs 6.3.3 and Paragraph 6.3.6 of the Procurement Guideline	Even though the bid opening should be done in front of the bidders or their representatives and all those who officially involve in the bid opening should sign the attendance, the record of bid opening to confirm the presence of bidders was not observed in the file.	No answers have been received.	Action should be taken in accordance with the procurement guideline.
(d)	Paragraph 4.3.1 of the Procurement Guidelines	Even though the total cost estimate should be prepared by the procurement entity, the total cost estimate had been prepared by the consultant in accordance with Clause 1 of the scope of Annexure 03 of the Agreement signed with the Consultancy Services Agency. Since the consultant is paid based on the contract cost, it was problematic during the audit for the consultant to perform the task without following the provisions of the Procurement Guidelines.	No answers have been received.	Action should be taken in accordance with the procurement guideline.
(e)	Paragraph 4.3.2 of the Procurement Guidelines	Even though the total cost estimate should be approved by the head of the institution, it was not approved.	No answers have been received.	Action should be taken in accordance with the procurement guideline.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 23,467,308 and the corresponding surplus in the preceding year amounted to Rs. 26,962,258. Therefore a

deterioration amounting to Rs. 50,429,566 of the financial result was observed. The reason for the deterioration is decrease in other income.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
<p>The company had hired the service of a private company to prepare the land, where only 04 bids had been received and the contract was awarded to the 4th lowest bidder. The first and second bidders were rejected on the grounds of non-compliance and the third lowest bidder was not awarded with the contract. Therefore, the contract cost increased by Rs. 3,134,002 and the consultation fee also increased by Rs. 156,700.</p>	<p>No answers have been received.</p>	<p>Tasks should be done at a minimum cost and with more efficiency.</p>

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The land preparation project, which was approved by the Governing Body on 04 October 2013, was commenced six years later. The estimated contract value of this work in the year 2013 was Rs. 30,480,000 and even though the Governing Board had approved the work to be carried out under the same value in the year 2018, the work had not been completed. The estimated value approved by the Governing Board for the year 2019 is Rs. 36,040,000 and the additional estimated cost to be incurred due to non-implementation of this work in the year 2018 is Rs. 5,560,000.</p>	<p>No answers have been received for the audit query.</p>	<p>Measures should be taken to minimize additional costs.</p>

3.3 Human Resource management

Audit Observation	Comments of the Management	Recommendation
(a) The approved cadre of the foundation is 144 and the number of vacancies is 27. 16 out of these vacancies have been held for a period of 07 years to 10 months and the Foundation had not taken action to fill the vacancies by March 2021.	One of the vacancies as on 31 December 2020 was recruited in 2021 and other qualified candidates could not be recruited due to non-application, cancellation of recruitments due to Presidential election, non-attendance of recruited candidates, Covid 19 epidemic situation.	Action should be taken to recruit for the required posts as soon as possible and to revise the recruitment procedure if there are any difficulties in doing so.
(b) The post of the Director General of the Foundation has been vacant since 01 January 2020 and no recruitments were made for that post till the date of the audit.	Even though applications were called for the post of Director General on two occasions in 2019 and 2020, no one met the required qualifications for the post in the first instance and the selected candidate rejected the post in the second instance. Once again, applications were called in August 2021 for recruitment to this position, and only one applicant applied for this post. Necessary arrangements are made for conducting interviews and recruitment with the approval of the governing body and the Ministry.	Action should be taken to recruit in accordance with the recruitment procedure.
(c) Recruitment for the posts of Accounts Officer and Book Binder, which had been vacant for few years from an unknown date when vacancy had arisen, has not been made by the date of the audit.	A case has been filed in the Labor Department for 02 Accounting Officer posts and the case is currently being heard. Vacancies will be filled as per the decision of that case. 02 vacancies available in the post of book binder since year 2014. Even though	Action should be taken to fill the vacancies.

applications were called for filling this vacancy on several occasions, these 02 posts could not be filled as the applicants who had fulfilled the qualifications mentioned in the recruitment scheme (NVQ 4 Certificate) of the institute had not applied. Proposals to revise the recruitment scheme to fill these 02 vacancies have already been submitted to the Department of Management Services with the approval of the governing body and it has not yet been approved.