

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified based 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**

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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 Sub-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 Responsibility for Auditing the Financial Statements**

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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 identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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

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### 1.5.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards

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Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
(a) The useful life of non-financial assets had not been annually reviewed as per Paragraph 65 of Sri Lanka Public Sector Accounting Standard 7 and despite being fully depreciated, non-current assets costing Rs.62,452,454 were further in use. No action had been taken to revise the relevant estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.	The Department of Valuation has completed the initial assessments of the non-financial assets of the Institute and relevant adjustments will be made in the financial statements once the other assessment reports are received. Accordingly, the values of non-financial assets which are in further used will be revised.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.
(b) Although the Institute had obtained 03 patients as at 31 December of the year under review, the value thereof had not been assessed and brought to account as intangible assets in terms of Sri Lanka Public Sector Accounting Standard 20.	Further action has been taken to account for the value of the patients of the Institute.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.

## 1.5.2 Accounting Deficiencies

----- <b>Audit Observation</b> -----	----- <b>Comment of the Management</b> -----	----- <b>Recommendation</b> -----
(a) Nine items of assets worth Rs.900,712 not owned by the Institute had been stated under the current and non-current assets.	Discussions with the relevant parties are in progress regarding the assets worth Rs.900,712 not owned by the Institute and being used by external parties , and relevant corrections will be made.	Assets which are not owned by the Institute should not be included in the financial statements.
(b) Although Rs.1,097,477 spent for research projects from the year 2010 to 2016 should be identified as intangible assets, it had been brought to account under the library books.	This will be corrected after conducting studies on the preparation of accounting policies relating to account for the cost on research activities.	Research and development cost should be brought to account according to the relevant accounting standard.
(c) Although lands and buildings belonging to the Institute had been revalued at Rs.514,800,000 in the year 2015, those revalued amounts had not been brought to account even up to the year under review.	According to the assessed value given by the Government Department of Valuation, the lands and buildings of the Institute will be adjusted and corrected in the accounts.	The assessed value of the fixed assets should be stated in the financial statements.

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

----- <b>Reference to Laws, Rules, Regulations etc.</b> -----	----- <b>Non-compliance</b> -----	----- <b>Comment of the Management</b> -----	----- <b>Recommendation</b> -----
(a) Government Procurement Guidelines, 2006  -----		This fault is accepted and it is informed that arrangements have been made to carry out the procurement process accurately from the year 2022.	
Guideline 2.8.4	Without a recommendation of the Technical Evaluation Committee, agreements worth Rs.4,320,000 had	This fault is accepted and it is informed that arrangements have been made to carry out the procurement process accurately from the year 2022.	Action should be taken in accordance with the Government Procurement Guidelines.

been entered into for sanitary services and cafeteria activities for the year under review. Further, 08 electronic equipment had been purchased without a recommendation of the Technical Evaluation Committee.

(b) Circulars

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| i.    | Treasury Circular No.842 dated 10 December 1978                                | A register of fixed assets had not been maintained in respect of the fixed deposits costing Rs.1,083,853,325.  | Action will be taken to prepare a register for fixed assets and to document the computerized information after the annual physical verification for the year 2021 is completed.                                     | Action should be taken in accordance with the circular. |
| ii.   | Section 6.5.3 of the Public Enterprises Circular No.Ped/12 dated 02 June 2003. | Even though the Annual Report of the Institute inclusive of the performance of the preceding year should be tabled in Parliament along with the Audit Report of the Institute within 150 days from the expiry of the financial year, the annual performance report related to the preceding year had not been tabled in Parliament even by 31 December 2021. | Having prepared the Corporate Plan, approval of the Council has been obtained and action has been taken to submit it to the Auditor General, General Treasury, Line Ministry and the Public Enterprises Department. | Circular instructions should be followed.               |

## 2. Financial Review

### Financial Results

The financial result for the year under review was a deficit of Rs.74,976,627 as compared with the deficit of the preceding year amounting to Rs. 65,305,466. Accordingly, a deterioration of Rs. 9,671,161 was observed in the financial result. This deterioration was mainly due to decrease of the recurrent grants and other income and increase in the supply and the expenditure on consumptions

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Despite being employed an electrician, two machine operators and 03 unskilled employees as well as 03 security officers at night, the owner of the canteen had been paid Rs.3,075,000 at Rs.25,000 per month for opening water forces and the electric generators at times of power failure.	It is expected to properly publish notifications in publishing newspaper advertisements for this tender in the ensuing year and enter into proper agreements.	Action should be taken to ensure the maximum use the human resource of the and use the government funds economically.
(b) Although soil testing on the Institute premises had been carried out by paying Rs. 1,958,002 to the National Building Research Organization, about 03 years had been delayed for the implementation of recommendations in that report and as a result, the safety of the buildings, staff of the Institute as well as surrounding properties and the people was at a risk.	According to the report issued by the National Building Research Organization regarding the soil testing, necessary arrangements to construct a side wall is already being made by the relevant ministry.	Recommendations in the relevant report should be implemented.
(c) The Bioreactor 300L purchased at a cost of Rs. 474,975 during the year under review had been given to a private institute without levying charges and without obtaining approval of the Board of Management.	This is an equipment purchased from the grants received by the Institute. It has been issued on the instructions of the donor of the above grant. On completion of the board of survey in 2021, the equipment purchased on grants will be separately inventoried.	Assets should be issued to external parties only on a formal approval.
(d) Although the Board of Management had decided on 31 December of the year under review to stop the integrated software that had been implemented without a proper feasibility	According to the agreement prepared for the installation of integrated software, it has been agreed to pay an advance before the	Advance amount paid should be recovered.

study, action had not been taken to recover the advance of Rs. 660,000 paid to the contractor.

commencement of the activities relating to the software system. Accordingly, money has been paid as per the agreement before installation of the system and when it was decided that the system was not properly run, the advance payments had been completed.

(e) A sum of Rs. 558,672 had been paid during the year under review to transport 09 officers from the Digana government quarters to the Institute without formal approval.

It is expected to adopt a proper methodology for revision of charges or decide on further continuation of this transport service by referring this issue to the Council.

Action should be taken to obtain formal approval in this connection and timely revise the charges.

(f) Since the files and documents related to 18 ongoing researches as at 31 December of the year under review were not furnished to audit, the audit was unable to obtain details on the commencement, implementation, financial and administration activities and progress of those projects.

The physical progress and the achievements of each project from the beginning the projects have been stated and the identifiable financial expenses for the research projects since the year 2021 have been stated under the final account.

All information required for the audit should be furnished.

### 3.2 Operating Inefficiencies

#### Audit Observation

The scientist who was in charge of the research project titled "Quantum Physics and Applied Electronic" implemented at a cost of Rs. 47,485,576 by 31 December of the year under review had resigned from the Institute on 02 September 2020, that research project had been abandoned.

#### Comment of the Management

Professor Asiri Nanayakkara, the research scientist of the research project titled "Quantum Physics and Applied Electronic", resigned in September 2020. At the time of his resignation, there was no continuous research project under that research programme and no research assistant was serving in the project. Therefore, that programme was not entrusted to another scientist at the time resignation of the said professor.

#### Recommendation

Research should be continued so as to achieve the expected objectives.

### 3.3 Underutilization of Funds

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Audit Observation	Comment of the Management	Recommendation
(a) Out of the computer accessories valued at Rs.6,864,960 purchased in the year 2018 for the installation of an Intergraded Software for efficient implementation of operating activities of the Institute, computer accessories worth Rs.1,680,560 remained underutilized even by the end of the year under review.	These computer and accessories were purchased not only for the integrated software but for the computer requirements of the other divisions of the Institute and those computer and accessories have already been made available for the requirements of those divisions.	Computer accessories should be effectively used.
(b) Without being effectively used the funds of Rs.36,166,934 received for 04 capital projects, it had been deposited in a deposit account from the preceding year.	Plans have already been drawn to use these funds effectively in the future.	Funds should be used effectively for the relevant purposes.

### 3.4 Human Resource Management

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Audit Observation	Comment of the Management	Recommendation
Although the post of Internal Auditor had remained vacant from the preceding year up to the year under review, no qualified officer had been recruited for the post and no internal audit had been carried out during that period.	Action has been taken to make necessary recruitments for the vacancies in accordance with the Management Services Circular No.02/2020.	An Internal Auditor should be recruited and internal audit activities should be maintained optimally.
Action has been taken to make necessary recruitments for the vacancies in accordance with the Management Services Circular No.02/2020.		