

## **National Science Foundation - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Science Foundation 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 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 National Science Foundation as at 31 December 2021, 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**

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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**

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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 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 Board 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 Board 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 Responsibility for the Audit of 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 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 Company'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 Company'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 Company 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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>According to paragraph 48 of Sri Lanka Public Sector Accounting Standard No. 01, assets and liabilities and income and expenses should not be offset except when required or permitted by those standards. But, the Foundation had shown gross loss of Rs.2,034,149 from the sale of publications as income in the financial performance statement. Due to this, the income of the year under review has understated by that amount.</p> | <p>Since previous years the gross profit/loss on sale of the statements have been shown separately in the financial performance statement. It has not affected the final financial result. I will arrange to show the sales revenue in the accounts according to the accounting standards in the coming year.</p> | <p>Should be done in accordance with the Public Sector Accounting Standards of Sri Lanka.</p> |

## 1.6 Accounts Receivable

| Audit Issue   | Management Comment   | Recommendation  |
|---|--|---|
| <p>(a) For more than three years, Rs.1,575,433 was not paid attention to settle the debtor balance.</p> | <p>The financing of the project will be completed immediately after the completion the functions of this research.</p> | <p>Actions should be taken immediately to recover or settle the receivable amounts.</p> |
| <p>(b) According to Section 05 of the Research Principal Grant Guide and 2.4 (b) of the</p>             | <p>The remaining amount will be settled according to the reminder process introduced from the end</p>                  | <p>Appropriate action should be taken to recover.</p>                                   |

Contract Conditions for of 2019.  
 Research Projects, the An awareness program to inform  
 the remaining amount should be the grantees about this has also  
 settled within one month after implemented on 25.03.2022.  
 the completion of the research  
 and submission of the final  
 financial report. But, The  
 remaining amount of  
 Rs.10,406,164, which was the  
 total value of the 21 grants  
 completed the research, had  
 not been recovered by the  
 audit date of March 2022,  
 even though a period of time  
 had passed between 06  
 months and 03 years after the  
 completion of the projects.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a deficit of Rs.12,722,038 and the corresponding deficit in the preceding year amounted to Rs.23,467,308. Therefore a growing amounting to Rs.10,745,270 of the financial result was observed. In the year under review, recurring grants had decreased by 18,590,000 and publication sales profit by 885,829. Also, this growth has mainly due to reduction in employee turnover by 10,400,506, office administrative expenses by 9,888,381 and capital expenditure by 14,222,730.

## 3. Operational Review

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### 3.1 Identified Losses

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| Audit Issue<br>-----   | Management Comment<br>-----   | Recommendation<br>-----   |
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| In the year under review, 9,900 publications in 11 categories with a cost value of Rs.1,162,125, which had been printed without a proper study of the need and a proper system for distribution, had been written off. | On November 15, 2010, these publications were written off on the basis of 50% of the 6 months old magazine value and 100% of the one year old magazine value on the basis of the approval obtained from the Management Boards. It is disclosed by Accounting Policy No. 6 in the financial statement. | As per requirement, distribution plan should also be prepared and publications should be printed accordingly. |

### 3.2 Management Inefficiencies

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>  |
|--|---|--|
| (a) During the year under review, 150 copies of "Covid-19" book had been printed by a private company at a cost of Rs.1,277,650 and a selling price of Rs.7500 per copy had been fixed. Although 50 books had been printed with the expectation of sale, due to the institution not preparing a proper marketing method, only 03 copies of the books had been sold by the audited date of March 07, 2022. Although 100 copies were allotted for free distribution, only 57 copies were distributed free of charge. | As this book is a book with long-term value data, it is not possible to sell it quickly. For that, a formal system will be established by giving publicity in the institute's programs and other methods. Steps will also be taken to display the proposed publications in the booth for exhibition and sale and sell them to the required users. | Publications, books and magazines should be printed with a plan considering the need and importance. |
| (b) During the year under review, 5,100 copies of the educational magazine called Vidurawa, which is printed for the special purpose of free distribution to school science associations, Vidatha centres, regional and provincial science associations, were printed at a cost of Rs.963,484. Only 963 copies of this printing had been distributed by the last day of the year under review.   | About nine printed copies will be collected and distributed considering the cost of postage etc. for magazine distribution. Due to the Covid 19 epidemic situation, the distribution activities had to be temporarily delayed.  | Publications, books and magazines should be printed with a plan considering the need and importance. |

### 3.3 Operational Inefficiencies

| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>   |
|--|--|---|
| (a) The Foundation has provided an allocation of Rs.4,084,935 for four research projects between 2017 and 2020. However, it has observed during the audit that if the expenses were incurred for those researches, the relevant expense reports or the | The relevant reports and money for 02 researches have been sent so far. Reminders were sent regarding one research. A police complaint is to be lodged in connection with one of the researches. | Existing control systems should be improved so that the current state of research can be monitored. |

allocation amount given if the expenses were not incurred, were not brought back to the National Science Foundation.

- (b) From the year 2017, grants were made for 05 research projects worth Rs. 61,783,085 under the theme "Climate Change and National Disasters". However, related objectives have not been fulfilled in relation to these research projects, high estimates have been prepared for expenses, delays and non-submission of progress reports and financial reports, project tasks have not been carried out as planned, delays in evaluation and evaluation of progress reports by evaluation committees. Matters that have not been dealt with were observed during the audit.
- (c) The allocation given for the research project on health science was Rs.250 million, but the total estimated cost for 22 projects was estimated to be Rs.566 million. Estimate the total cost and time required to complete a project. But, Considering that, the number of projects that can be carried out within the Rs.250 million allocation limit had not been studied and the more important projects had not been correctly identified. Provisions were made separately for several projects of the same type and five projects for improvement of data systems were given a total value of Rs.37.86 million.
- (d) It was observed that research projects in health science had failed to be completed within the stipulated period as per the
- There are cases where we agree, somewhat agree, and disagree with the audit observations. Some researches cannot measure the achievement of the objectives or not. It varies depending on the notification methods and the visibility of the evaluation panel. Through research, we hope to increase knowledge and advance science. So far progress reports have been evaluated. Late financial reports has been Received. Reminders has sent for reports not received.
- According to the 2016 budget proposals, an allocation of 250 million rupees was received and 75 million rupees were given in the years 2017 and 2018 respectively, but they were awarded for the projects which were necessary and aimed at reducing the spread of diseases. Due to the Covid-19 situation, the priorities of the management of the organization has changed. Accordingly, the activities of these research projects had to be stopped. As a result, the target objectives could not be achieved.
- Efficiency and effectiveness should be taken into account in the use of funds.
- The research results can contribute to the development of the country and the researchers should be guided to start and carry out research under realistic and appropriate topics and should be closely monitored so that the research can achieve the desired objectives.
- These research projects had a duration of 02 to 04 or 05 years. By the middle of the year 03, due to the outbreak of the Covid-19 epidemic,
- If the project has been planned to be successfully completed within a

agreement. 12 projects amounting to Rs.144.863 million were not completed by the audit date of August 2022. The delay in those projects was between 08 months and 32 months as of the date of audit.

the researchers have not been able to complete the research within the stipulated time. However, research on this project has been completed so far.

reasonable period of time, the project should be evaluated with more care and provision should be made.

€ The National Science Foundation aims to encourage universities and research institutions to carry out technical innovations under technical grants and competitive research grants, to strengthen the capacity and capability of non-governmental sector organizations by actively contributing to the innovation process, to develop innovative models of innovators and to add a commercial face grants had been made for taking. During the period 2017 – 2021, the results of 16 research projects with a total value of Rs.40,468,833 out of 31 technical grants were not commercialized. Also, although the cost of Rs.110,120,240 was incurred for 31 researches, no patent was obtained for any of the researches.

Not all grants in a competitive research grant project need to be commercialized. It will help to update or develop the technical profile of a design.

The desired objectives should be achieved through research conducted at the expense of government funds.

**4 Accountability and Good Governance**

| Audit Issue<br>-----  | Management Comment<br>-----  | Recommendation<br>-----                         |
|---|--|---|
| (a) 11 activities included in the 2021 action plan were not carried out during the year.                | Some of these activities could not be implemented and completed due to the impact of the spread of Covid during the year. Certain activities have been completed in the year 2022. | Plans should be followed.                       |
| (b) Targets for 08 activities included in the action plan for the year 2021 were not given numerically. | Working to present numerical targets in the right way in the future.   | Planned targets should be shown in numerically. |