

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Fundamental Studies for the year ended 31st December 2019 comprising the statement of financial position as at 31 December 2019 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. 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 Institute of Fundamental Studies as at 31 December 2019, 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

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

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 Scope of Audit (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 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 Institute'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 board 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Due to the useful life of the non-current assets had not been reviewed annually in accordance with paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, the cost of non-current assets of Rs.132,990,941 was fully depreciated but continue to be used. Accordingly, no action had been taken to revise the estimated error in accordance with Sri Lanka Public Sector Accounting Standards 03.	Asset values that will be use further will be revised after receiving the revaluation reports related to non-current assets.	Financial statements should be prepared in accordance with accounting standards.
(b) Necessary disclosures had not been made in the financial statements as per paragraph 90 of Sri Lanka Public Sector Accounting Standards 07 regarding the revaluation reserve of Rs.118,388,385 at the end of the year under review.	The Accounting policy which follows regarding the revaluation reserve will be work to disclose in financial statements in future.	Financial statements should be prepared in accordance with accounting standards.

1.5.3 Accounting Policies

Audit Issue	Management Comment	Recommendation
Although the primary role of the institute of fundamental studies is to conduct research in various fields, in the financial statements did not disclose the accounting policy which follow regarding the accounting of the relevant expenses.	Arrangements will made to disclose the relevant accounting policies followed in relation to research and development activities in financial statements in future.	Action should be taken to disclose the appropriate accounting policies in the financial statements.

1.5.4 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Rs.29,853,300 worth of unusable assets and Rs.5,693,070 worth of missing assets identified in the 2018 board of survey, had disclosed under the property, plants and equipment in the statement of financial position without action being taken to remove from the accounts.	The stated values were re-surveyed and notes were kept for discard of relevant assets.	The internal control system for fixed asset control and accounting should be improved.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs			
(a) Lands	28,622,151	Information relevant to confirmation of ownership	The revaluation of the fixed assets of the institute is being done by the Valuation Department and will take action to include to accounts as soon as received those reports.	Evidence related to the assets stated in the financial statements should be submitted to the audit.
(b) Office equipment, library books and vehicles	728,547,724	Annual board of Survey Reports	Due to the Covid epidemic, the board of survey reports could not be submitted to the audit and will submit those reports as soon as possible.	Action should be taken to submit the annual board of survey reports on the due date.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 101 and Financial Regulations 104	Regarding the 332 missing inventory items valued at Rs.5,693,070 had identified by board of survey committee in 2018 had not acted in accordance with financial regulations and Rs.344,915 worth of goods had been removed from the books on the recommendation of the Governing Body.	Missing items worth Rs.344,915 have been removed from the books and Item sub list maintenance has been commenced to find the remaining items.	Action should be taken in accordance with the financial regulations in respect of missing items
(b) Financial Regulations 770	Regarding the 397 inventory items valued at Rs.29,853,300 recommended as unusable items by the board of survey committee in the year 2018 had not been dealt with in accordance with financial regulations.	The goods will be assessed by the Valuation Department and steps will be taken to auction them in the future.	Action should be taken in accordance with the financial regulations regarding the items that cannot be used.
(c) Section 14 (1) of the Finance Act No. 38 of 1971	The final annual report for the year 2018 and the draft annual report for the year under review had not been prepared by 15 th May 2020, the date of the audit	The preparation of the 2018 report was delayed due to the Covid-19 epidemic and is currently being prepared.	Action should be taken in accordance with the relevant Act.
(d) Treasury Circular bearing No.842 dated 19 th December 1978	No fixed asset register was maintained with respect to fixed assets valued at Rs.1,028,564,797.	Preliminary steps are currently being done to prepare a fixed asset register in accordance with the Treasury Circulars.	Action should be taken in accordance with the relevant circular.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operating result for the year ended 31st December 2019 amounted to a deficit of Rs.79,107,598 and the corresponding deficit in the preceding year amounted to Rs.99,558,195. Therefore an improvement amounting to Rs.20,450,597 of the financial result was observed. The reasons for the improvement are increase in recurrent grants received and the decline in supply and consumption costs.

In analyzing financial results of the year under review and 04 preceding years, a deficit was observed from the year 2015 to 2019. However, when readjusting the employees remunerations and depreciations for the non-current assets to the financial results, the contributions of the Institute amounting to Rs.104,397,176 in the year 2015 had become Rs.170,341,905 in the year 2019.

3. Operational review

3.1 Management inefficiencies

Audit Issue	Management Comment	Recommendation
(a) An agreement of Rs.2,200,000 had been entered into on 28 th March 2016 with a private institute to set up an Intergraded Software system for the institute and Rs.660,000 had been paid as an advance. The company had spent Rs.6,864,960 for the purchase of computers and computer accessories for that during the period from 27 th December 2017 to 02 nd February 2019, but the relevant system had not been installed by 31 st December 2019.	The computer devices worth Rs.6,864,960 were purchased not only for the software system, also an advance of Rs.660,000 had to pay as per the agreement entered into with the relevant institution. The system has been running live since 03 rd March 2020 and is currently in the testing phase.	Action should be taken to expedite the progress of this system in accordance with the relevant agreements.
(b) No action had been taken until 30 th June 2020, the date of the audit, to obtain the legal possession of the 14 acres, 02 rude, 17.5 perches of Hanthana Estate land transferred to the Institute on 08 th June 1990 by the Janatha Estate Development Board.	Our institute has not been able to intervene in the matter as there is a case pending in the High Court regarding this land which has been taken over by the Land Reforms Commission.	Necessary action should be taken to expedite the acquisition.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>According to Chapter XII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, a professor was granted leave to work as a Senior Professor on a contract basis at the University of Colombo for the period from 19th August of the year under review to 18th March 2020. For this purpose, the Governing Body of the institute had introduced a leave scheme from 07th October 2017, surpassing the Chapter on Leave in the Establishments Code.</p>	<p>Since the doctors and professors of the National Institute of fundamental Studies receive the same salary as the university system, leave were approved on the system of approving leave in the university system.</p>	<p>Action should be taken in accordance with the provisions of the Establishments Code.</p>

3.3 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
<p>An amount of Rs.63,862,681 allocated for capital projects in previous years had not been utilized for the relevant purpose and of this Rs.51,287,288 had been invested in a State Bank on 31st December 2019.</p>	<p>At present this money is being utilized for relevant activities.</p>	<p>Necessary action should be taken to utilize the funds expeditiously.</p>

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>According to the revised procurement plan for the year under review, the overall progress was only 46 percent.</p>	<p>Procurement was delayed due to the release of the required funds from the General Treasury at the end of the year.</p>	<p>Action should be taken in accordance with the procurement plan.</p>

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) As at 31 st December 2019, there were 29 vacancies in 15 posts in the staff of the institute out of that 10 vacancies were in the academic staff. Also there was a surplus of 14 non-academic staff.	On delay in giving approval for recruitment by the Department of Management Services during the presidential election period relevant vacancies was unable to fill.	Regarding the excess and vacant posts should be dealt with expeditiously.
(b) In the National Institute of fundamental Studies established for research purposes, due to the 1/3 (33%) of the approved posts of the research staff were vacant, it had been a major obstacle to achieving the basic objectives of the institute.	Although requests have been made to the Department of Management Services to make the recruitments for these vacant posts, the relevant recruitments has not been possible as approval has not yet been granted.	Necessary action should be taken expeditiously with regard to vacant posts.
(c) Contrary to the letter bearing no DMS/E2/62/7/277 dated 11 th April 2011 of the Director of Management Services Department, on 02 nd January 2016 by the Governing Body; thirteen technical officers had been appointed to the post of Chief Technical Officer with effective from March 2013.	Thirteen technical officers have been promoted to the post of Chief Technical Officer as per the circulars issued by the University Grants Commission.	Promotions should be made in accordance with the relevant circulars.
(d) According to the letter of the Director General of Management Services bearing No. DMS / 1608 dated 29 th May 2014, although the post of Deputy Director (Research) has been approved for recruitment on a contract basis for period of 03 years, but more than 5 years have passed no action has been taken to fill that post.	Due to a discrepancy in the salary scale approved by the Department of Management Services for the post of Deputy Director, the Department of Management Services has been informed.	Necessary action should be taken expeditiously with regard to vacant posts.

4. Accountability and Good Governance

Internal audit

Audit Issue -----	Management Comment -----	Recommendation -----
Out of the 40 observations submitted by Internal audit during the year under review and last year, 32 observations had not been corrected.	It is working to rectify them as soon as possible as there was a delay in making the correction in internal audit observations.	Action should be taken to rectify the relevant observations expeditiously.