

## **National Institute of Fundamental Studies - 2014**

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The audit of financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 36(4) of the National Institute of Fundamental Studies Act, No. 55 of 1981. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my of opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Institute of Fundamental Studies as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following non-compliances were observed.

- (a) According to Sri Lanka Public Sector Accounting Standard No.3, prior period material errors occurred should be rectified retrospectively in the first set of financial statements issued after identifying them by the entity. Nevertheless, prior year adjustments amounting to Rs.2,978,856 had been adjusted to the Accumulated Fund during the year under review instead of being adjusted retrospectively.
- (b) According to Sri Lanka Public Sector Accounting Standard No.1, the items to be settled within 12 months from the date of balance sheet only should be shown under current liabilities. Nevertheless, unsettled balance totalling Rs.90,000 had been shown as current liabilities despite a period of 5 years lapsed since the due period for settlement.
- (c) Thirteen items of assets purchased at a cost of Rs.337,026,080 of which the value had become zero after depreciation despite being used further, had not been revalued and brought to account and made adjustments for depreciation thereto in terms of Section 92 of Sri Lanka Public Sector Accounting Standard No.1.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) A payment of Rs.408,160 had been made in the year under review for a software installed to speed up the access to internet by the Ceylon Education and Research Network of the University of Peradeniya. Nevertheless, that value had not been capitalized under Computers and Software.
- (b) Even though a payment of Rs.42,400 had been made during the year 2015 to two institutions for procurement of goods relating to the year under review, no provision had been made therefor as at the end of the year under review.

- (c) Provision for gratuity amounting to Rs. 497,908 had been made in respect of two officers recruited to the National Institute of Fundamental Studies on contract basis but not entitled for gratuity.
- (d) House Rent in arrear totalling Rs.129,750 payable in respect of occupying the quarters belonging to the Mahaweli Authority by the officers employed in the National Institute of Fundamental Studies had not been paid to the Authority. Further, the required provision had also not been made during the year under review.
- (e) The Accounting Policy being adopted with regard to Government capital grants had not been disclosed. Instead of amortization of depreciation relating to the property, plant and equipment purchased at a cost of Rs.2,535,979 by utilizing the capital grants during the year, the total cost had been credited to the Accumulated Fund.

### **2.2.3 Unreconciled Control Accounts**

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A difference of Rs.1,444,530 was observed between the balances of 3 items of account shown in the financial statements and schedules presented for audit.

### **2.2.4 Lack of Evidence for Audit**

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Evidence indicated against 4 items of account totalling Rs.80,437,405 of the year under review had not been made available to audit.

<b>Item</b> -----	<b>Value</b> ----- <b>Rs.</b>	<b>Evidence not made available to Audit</b> -----
(a) Creditors	90,000	Confirmation of Balances
(b) Agency Balance	17,405	Letters confirming the Value
(c) Work in Progress	80,000,000	Measurement Sheets, Work done Sheets
(d) Soil Test	330,000	Soil Test Reports
	----- 80,437,405 =====	

### **2.3 Accounts Receivable and Payable**

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Action had not been taken since the year 2012 to recover a balance of Rs.1,782,802 receivable to the Institute out of the advances paid to the Department of Buildings in respect of 5 constructions carried out in the Institute .

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>
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(a) Employees’ Provident Fund Act, No. 15 of 1958 and the Letter No. ඉ/අයහන/11 dated 24 August 2001 of the Commissioner of Labour.	As study allowance is not interpreted as a cost of living allowance, that allowance should not be made applicable for contributions to the Employees’ Provident Fund, the Pension Fund and the Employees’ Trust Fund. Nevertheless, due to the action taken by the Management contrary to the above instructions, the additional sums paid to the Funds referred to above in respect of the academic staff of the Institute amounted to Rs.2,769,992.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka Sections 12.2.2 and 12.5.2 of Chapter VII	A sum of Rs.30,557 had been overpaid during the year under review due to payments made to an officer who act in a post superior to the substantive post he holds contrary to the provisions of the Establishments Code.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
i. Financial Regulation 396(d)	Action in terms of Financial Regulations had not been taken with regard to three cheques valued at Rs.9,534 issued but not presented to the Bank for over six months .
ii. Financial Regulation 1645	Daily Running Charts had not been prepared and checked regularly.
iii. Financial Regulation 1646	Daily Running Charts and originals of the Monthly Summaries had not been furnished to the Auditor General before the 15 <sup>th</sup> of the following month.
iv. Financial Regulation 1647(c)	In case of availability of three or more motor vehicles in one place, a register should be maintained in respect of all purchases and issue of goods not entered in the Log Book. Nevertheless, such register had not been maintained despite the availability of 10 motor vehicles belonging to the Institute.

- v. Financial Regulation 1647(e) Even though 10 motor vehicles existed in the Institute, a register including all details of the motor vehicles had not been maintained.
- (d) Treasury Circular No. 842 of 19 December 1978 A register in respect of fixed assets valued at Rs.328,333,310 belonging to the institute had not been maintained in terms of the Circular.
- (e) Public Administration Circular No.41/90 of 10 October 1990 Fuel consumption of four motor vehicles belonging to the Institute had not been tested once in six months while a sum of Rs.1,080,837 had been spent on fuel during the year.
- (f) Public Administration Circular No.25/2014 of 12 November 2014 Section 7 Seven officers had been recruited temporarily to the Institute contrary to the circular, and salaries amounting to Rs.962,075 had been paid from the Institute's funds during the year.
- (g) Treasury Circular No.IAI/2002/02 of 28 November 2002 Even though a Register of Fixed Assets for Computers, Accessories and Software should be maintained in respect of computers and printers valued at Rs.20,424,482, it had not been so done.
- (h) Public Enterprises Circular No.PED/12 of 02 June 2003
- (i) Section 7.4.1 Even though an age analysis of redundant stocks and slow moving stocks should be prepared, such an age analysis had not been prepared.
- (ii) Section 9 A budget on human resources had not been prepared.

## **2.5 Transactions not supported by Adequate Authority**

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The following observations are made.

- (a) A sum of Rs.5,048,911 had been paid during the year under review to the staff recruited without a formal approval, contrary to the circulars No.DMS/E2/62/7/277 of 11 April 2011 and No.DMS/1608 of 05 November 2014 of the Director General of the Department of Management Services.
- (b) Allowances totalling Rs.29,500 had been paid to the Secretary and to the Works Assistant of the Research Council of the Board of Management, contrary to the paragraph 2 of the circular No.PED/POL/2 dated 29 April 2011 of the Secretary of the Treasury.

- (c) A sum of Rs.3,615,361 had been paid for overtime claims for which the required approval was not properly obtained for the overtime services requested through overtime applications.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year ended 31 December 2014 was a deficit of Rs.21,133,791 as compared with the corresponding deficit of Rs.25,768,370 for the preceding year. As such, the financial results for the year under review indicated an improvement of Rs.4,634,579 as compared with the preceding year. Even though the personal emoluments and wages, expenditure on supplies and services, maintenance, and other expenses had increased by Rs. 7,722,580, Rs.6,566,015, Rs.4,694,443 and Rs.4,281,863 respectively, increase in recurrent grants and other income by Rs.27,373,000 and Rs.3,214,404 respectively had mainly attributed to the above improvement.

### **4. Operating Review**

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#### **4.1 Management Inefficiencies**

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The following observations are made.

- (a) Even though all advertisements should be published in all three languages in accordance with the implementation of the Official Language Policy, advertisements with regard to the recruitment of Research Assistants had been published only in English language in 6 instances.
- (b) Six Government quarters at Nilagama, Digana belonging to the Sri Lanka Mahaweli Authority had been obtained for the accommodation of officers employed in the National Institute of Fundamental Studies since the year 1986. Nevertheless, an agreement between the two parties had not been entered into even by 31 March 2015.
- (c) According to the Public Finance Circular No.438 of 13 November 2009, Heads of the Departments are authorized in terms of Section 3 to take action with regard to disposable goods already identified in terms of Section 2(a). Nevertheless, action had not been taken to dispose the assets valued at Rs. 1,389,076 not used as identified by the Board of Survey Report of the year 2014.
- (d) In terms of Section 28 of the Provident Fund Minute of the National Institute of Fundamental Studies, the accounts of the Fund should be prepared for each calendar year and subject to a check. Nevertheless, the accounts of the Fund of the year under review had not been prepared even by 01 April 2015, the date of audit.
- (e) Even though a decision had been taken during the year 2012 to dispose the assets belonging to the Institute including laboratory equipment, tools and furniture valued at

Rs.24,915,351 , action had not been taken to dispose even by the end of the year under review.

#### **4.2 Operating Inefficiencies**

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Nine advances totalling Rs.220,892 had been paid for the purchase of library books, chemicals and equipment from foreign institutions during years from 1996 up to 2000. Nevertheless, action had not been taken to obtain those equipment or books even by the end of the year under review while it had been shown as advances brought forward in the accounts. Further, the difficulty in obtaining those books and equipment had been a loss occurred to the Fund , whereas no action had been taken to recover that loss from the relevant officers responsible.

#### **4.3 Transactions of Contentious Nature**

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The following matters were observed in the examination of the Project relating to the liquid fertilizer called Rhizobium Inoculant product for soya beans under the Rhizobium Project assigned to the National Institute of Fundamental Studies on 31 August 2011 by the Postgraduate Institute of Science.

- (a) The income received from this Project being implemented as a self-Fund is maintained under the name of Rhizobium Project Fund in which the two officers employed as the Head of the Project and the Research Assistant had been paid salaries amounting to Rs. 884,847 from the provision of the Institute in the year under review.
- (b) Action had not been taken by the officers responsible even as at 31 March 2015, the date of audit to obtain the patent to the Institute for the discovery of coir refuse planting medium used for the production of the liquid fertilizer called Rhizobium Inoculant product, discovered as a result of the experiments done with a view to using the inventions of the National Institute of Fundamental Studies efficiently for the betterment of general public in the country. Instead of the sale of products of the Institute directly to the market , sale had been made through 3 institutions due to the lack of a patent. Thus, an estimated income of Rs.390,814 had been deprived of to the Institute during the year under review.

#### **4.4 Underutilization of Funds**

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Provisions amounting to Rs.747,089 received in respect of 7 special proposals of the Institute had remained idle without being used.

#### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) Books and publications valued at Rs.151,880 printed by the National Institute of Fundamental Studies had remained unsold for over a long period of time.

- (b) Action had not been taken even by March 2015 to use the Greenhouse constructed at a cost of Rs.2,360,000 in the year 2010 with optimum efficiency, effectiveness and economy.
- (c) An examination of the stores of chemical stocks and the stock verification reports as at 31 December 2014 revealed that 77 items of stocks valued at Rs.472,376 had been non-moving stocks over a long period while 53 items of slow moving chemical stocks valued at Rs.273,954 had been kept in the stores. Even though attention of the Management of the Institute had been drawn thereto by audit queries of the preceding year, no action whatsoever had been taken by the end of the year under review.
- (d) Even though 28 items of fixed assets valued at Rs.3,773,821 had been idling without being used, no course of action had been taken by the Management to repair and use those or to take any other action for disposal .

#### **4.6 Personnel Administration**

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Vacancies in the academic and non-academic staff as at 31 December 2014 stood at 23 and out of that, approval for the recruitment to the post of Deputy Director (Research) on contract basis for a period of 3 years had been granted by the letter No.DMS/1608 of 29 May 2014 of the Director General of the Department of Management Services. Nevertheless, action had not been taken to recruit by preparing a Scheme of Recruitment and obtaining the approval of the Department of Management Services.

### **5. Accountability and Good Governance**

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#### **5.1 Action Plan**

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Even though an annual Action Plan had been prepared with a view to achieving the objectives included in the Corporate Plan, a methodology for the periodical review of the progress of achieving the objectives in the Plan had not been formulated by the Institute.

#### **5.2 Internal Audit**

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In terms of Financial Regulation 134(2), internal audit work should be carried out by preparing an Internal Audit programme for each accounting year covering all the financial aspects of accounts and financial control in order to enable an adequate and efficient check on financial activities. Nevertheless, such internal audit programme had not been prepared and an internal audit had also not been carried out during the year 2014.

#### **5.3 Submission of Reports to the Management**

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The reports which should be submitted to the Board of Management monthly in terms of Section 4.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been submitted.

#### **5.4 Audit Committees**



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In terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Audit Committee had not furnished its observations to the Board of Directors and the following matters of the Audit Committee had not been brought to the scope.

- i. Determination of the responsibilities of the Internal Audit Unit and the review of the annual audit plan.
- ii. Review and evaluate internal control system pertaining to all activities of the Institute.
- iii. Review of the proposals/guidance made to the Committee on Public Enterprises.
- iv. Statements on identified old slow moving and idle stocks and other items.

### **5.5 Procurement Plan**

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Even though a Procurement Plan in respect of Rs.120,000,000 had been prepared for the year under review in terms of provisions of the Procurement Guidelines, the following weaknesses therein were observed.

- (a) Procurement activities expected at least for a period of three years had not been included.
- (b) Procurement activities for the ensuing year should be included in detail and the Master Procurement Plan should be regularly updated within not less than a period of six months. Nevertheless, action had not been taken accordingly.

### **5.6 Budgetary Control**

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In terms of Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the annual budget should be made use of as an instrument for the achievement of the long term goals according to the Corporate Plan. Nevertheless, it was observed that the budget had not been made use of as an effective instrument of financial control due to the following differences.

- (a) A variance ranging from 2 to 97 per cent amounting to Rs.7,377,000 existed between the estimated expenditure and actual expenditure pertaining to 23 Objects.
- (b) Out of the provision amounting to Rs.600,000 made for 3 Objects , 100 per cent had been saved.
- (c) Income totalling Rs.764,500 pertaining to 4 Revenue Heads not included in the estimated sources of income had earned during the year under review.
- (d) A comparison between the estimated income and actual income under the source of various income revealed an underestimation of income amounting to Rs.90,000.

**6. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Administration of Staff Loans
- (c) Research Grants
- (d) Stock Control