

National Institute of Fundamental Studies - 2015

The audit of financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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

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

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 Auditing 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 judgement, including the assessment of the risks of material misstatement 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

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

2. Financial Statements

2.1 Qualified Opinion

In my 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 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard – 02

Even though only changes in cash should be indicated in the cash flow statement, transactions amounting to Rs.26,775,848 in which a cash movement had not occurred, had been included in the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard – 03

(i) Even though an entity should correct material prior period errors retrospectively in the first set of financial statements itself issued after their discovery, deviations from Sri Lanka Public Sector Accounting Standards totalling Rs.337,026,080 and accounting deficiencies totalling Rs.129,750 shown in the report of the Auditor General relating to the year 2014 had not been rectified and shown in the financial statements for the year under review.

(ii) The assets costing Rs.65,948,057 had been fully depreciated as the useful life of non-current assets had not been reviewed annually. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error.

(c) Sri Lanka Public Sector Accounting Standard – 07

If a class of property, plant and equipment is stated at revalued amounts, the particulars which should be disclosed in respect of those assets such as the effective date of the revaluation, whether an independent valuer was involved and the methods and significant assumptions applied in estimating the assets' fair value, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The motor vehicles valued at Rs.12,780,000 transferred to the Institute by the Department of National Budget had not been brought to account.
- (b) The value of 04 patents obtained in favour of the Institute had not been assessed and disclosed in the financial statements.
- (c) House rentals amounting to Rs.160,570 payable to the Sri Lanka Mahaweli Authority had not been brought to account.

2.2.3 Unexplained Differences

Even though the value of 02 fixed deposit certificates as at the end of the year under review had been shown in the financial statements as Rs.5,774,320, according to bank confirmations, it was Rs.5,448,500. The reasons for this difference had not been revealed.

2.2.4 Lack of Evidence for Audit

Evidence indicated against 04 items of account totalling Rs.112,222,982 of the year under review was not made available to audit.

Item	Value	Evidence not made available to Audit
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	Rs.	
(a) Balance of the Institutional Provident Fund	70,836,667	Audited Final Accounts.
(b) Balance of the Retired Officers' Fund	1,704,529	-Do-
(c) Library Books	14,766,435	Boards of Survey Reports
(d) Laboratory Equipment, Tools and Furniture	24,915,351	-Do-
Total	----- 112,222,982 =====	

2.3 Accounts Receivable

Action had not been taken to recover a sum of Rs.614,980 recoverable to the Institute out of the advances paid to the Department of Buildings in respect of 5 constructions carried out in the year 2012.

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

The following non-compliances were observed.

**Reference to Laws, Rules,
Regulations etc.**

Non-compliance

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- (a) Establishments Code of the Democratic Socialist Republic of Sri Lanka
Sections 13.1.2 of Chapter II
- Even though an officer with a Degree should be appointed for the post of Administrative Officer in terms of the approved Scheme of Recruitment of the Institute, a female Staff Assistant (Clerk) who had not fulfilled the said qualifications had been appointed to the vacant Post of Administrative Officer of the National Institute of Fundamental Studies on acting basis since 24 February 2014.
- (b) Treasury Circulars
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- (i) Treasury Circular
No. 842 of 19 December 1978
- A Register of Fixed Assets had not been maintained for fixed assets valued at Rs.363,580,492.
- (ii) Treasury Circular
No. IAI/2002/02 of
28 November 2002
- A Register of Fixed Assets had not been maintained in respect of computers and printers valued at Rs.25,022,297.
- (c) Public Administration Circulars
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- Section 07 of Circular No. 25/2014 of 12 November 2014 of the Secretary to the Ministry of Public Administration and Home Affairs.
- Fifteen officers had been recruited as trained officers without the approval of the Department of Management Services and assigned them with permanent duties and a total sum of Rs.824,413 had been paid as salaries from the Institute's Funds in the year under review.
- (d) Employees' Provident Fund Act, No. 15 of 1958 and Letter No. ප්‍ර/ආයතන/11 dated 24 August 2001 of the Commissioner of Labour.
- As study allowance should not be applicable for the Employees' Provident Fund, Pension Fund and Employees' Trust Fund, contrary to it, an overpayment of Rs.2,364,769 had been made as contributions of the Institute to the above funds as the academic allowance paid to the academic staff had been based.

2.5 Transactions not supported by Adequate Authority

Two posts such as Assistant Librarian and Deputy Accountant had been created without the approval of the Department of Management Services and two officers of the Institute had been promoted to those posts and paid a total sum of Rs.8,448,372 as salaries and Employees' Provident Funds.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a deficit of Rs.49,680,749 as compared with the corresponding deficit of Rs.30,590,273 for the preceding year thus, indicating a deterioration of Rs.19,090,476 in the financial result for the year under review as compared with the preceding year. Even though the Government grants had increased by Rs.9,559,000 as compared with the preceding year, increase in expenditure on personal emoluments and wages by Rs.25,952,896 and the increase in depreciation for non-current assets by Rs.3,344,503 had mainly attributed to this deterioration.

In the analysis of financial results for the year under review and 04 preceding years, there had been a deficit from the year 2011 up to the year 2015 and in considering the employees' remuneration and the depreciations for non-current assets, the contribution of the Institute which had taken a negative value of Rs.64,610,581 in the year 2011, had improved continuously up to a positive value of Rs.104,397,177 in the year 2015.

3.2 Analytical Financial Review

The ability of settling current liabilities using the current assets of the Institute had decreased by 4 per cent due to the decrease of the current ratio from 34 per cent to 30 per cent in the year under review as compared with the preceding year.

4. Operating Review

4.1 Performance

Even though the main objective of the Institute in terms of Section 2(4) of the National Institute of Fundamental Studies Act, No. 55 of 1981 amended by the Act No.05 of 1997 is to pay attention to national requirements and take action so as to improve its protection, it was observed that the research projects implemented by the Institute had not been prepared so as to fulfil the national requirements. Only 11 patents had been obtained from the National Intellectual Property Office of Sri Lanka and countries such as Korea and Portugal relating to researches carried out during the period of 34 years from the commencement of the Institute and the original copies of those patents had not been in the possession of the Institute as well. Out of those, 08 patents had been presented to audit and 04 of them had been obtained in the names of the researchers and it was observed that 03 patents obtained were not available with the Institute.

4.2 Management Activities

The following observations are made.

- (a) Even though the Director of the Institute had stated that the agreement entered into in respect of 06 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, action had not been taken to enter into a new agreement by 17 March 2016, the date of audit.

- (b) Proper action had not been taken by the Management of the Institute in respect of 105 library books for which information was not made available to confirm the value even by 08 March 2016, the date of audit, misplaced since a period of about 19 years.
- (c) Even though a revaluation surplus of Rs.9,167,124 arisen by revaluing 10 motor vehicles in the year under review for a value of Rs.15,955,000 of which the net value was Rs.6,787,876, had been shown in the financial statements, this revaluation had not been carried out by a qualified valuer.
- (d) In compliance with the Sri Lanka Public Sector Accounting Standard 03, errors occurred relating to the year 2014 had been retrospectively rectified. As a result, the deficit of values of the year 2014 had been shown in the financial statements for the year under review with an increase of Rs.9,456,482, a decrease of total assets by Rs.7,389,359, an increase of total liabilities by Rs.149,249 and a decrease of equity by Rs.7,538,608. Nevertheless, an approval of the Board of Control had not been obtained for those rectifications.

4.3 Operating Inefficiencies

Action had not been taken even by the end of the year under review to settle 12 advances totalling Rs.280,734 granted by foreign institutions for the purchase of library books, chemicals and other equipments during a period from 09 to 20 years. Action had not been taken to recover those advances from the responsible officers in terms of Financial Regulation 156(1) of the Democratic Socialist Republic of Sri Lanka.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) The “Project relating to the liquid fertilizer called Rhizobium Inoculant product” for soya beans had been acquired by the National Institute of Fundamental Studies on 31 August 2011 by the Postgraduate Institute of Science and those products had been introduced to the market through 05 external institutions contrary to the functions of the Establishment of National Institute of Fundamental Studies Act. Even though an income of Rs.1,602,300 had been earned therefrom in the year under review, an expenditure of Rs.2,376,967 had to be incurred thereon and as such, a loss of Rs.774,667 had been sustained.
- (b) A van of the Institute had been used and spent a sum of Rs. 257,200 for fuel during the year under review for the daily travel to and from the Digana official quarters by five officers of the staff who are not entitled to transport facility.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) A stock of publications including scientific issues valued at Rs.151,170 published by the Institute for sale 05 years ago had remained idle without being used.
- (b) The funds of 10 special grants totalling Rs. 691,257 received from the Government and other private institutions for various workshops and projects of the Institute many years ago had remained idle without being used.
- (c) It was observed in audit that computers and printers revalued at Rs. 431,465 remained in an unusable condition from a long period.

4.6 Personnel Administration

Twenty vacancies in 05 posts existed in the cadre of the National Institute of Fundamental Studies and out of them, 11 vacancies in the Research Staff and 04 vacancies of Research Assistants existed. As such, it was observed that there was a hindrance in achieving the expected targets of research activities of the Institute.

4.7 Market Share

Even though the National Institute of Fundamental Studies was in the 13953rd place in the year 2014/2015 according to the ranking of universities of the world, it had descended to the 14894th position by 941 places in the year 2015/2016. Even though it had obtained the 19th position in the year 2014/2015 among the universities of Sri Lanka, in the year 2015/2016 it had descended to the 21st position by 02 places. As such, it is observed that the Institute had failed to secure its graded position and proceed further.

5. Accountability and Good Governance

5.1 Internal Audit

Even though internal audit units should be established in every institution in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka, the Internal Audit Unit of the Institute had not been implemented during the year under review.

5.2 Procurement and Contract Procedure

Even though the Chief Accounting Officer should appoint Departmental Procurement Committees in terms of Guideline 2.7 of the Government Procurement Guidelines and Sections of 2.7.5 of the Procurement Manual, contrary to it, the Director of the Institute had appointed the Procurement Committee and purchased fixed assets totalling Rs.34,796,153 and chemicals and glassware totalling Rs.7,113,430 in the year under review on the approval of that Committee.

5.3 Budgetary Control

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

- (a) Variances ranging from 10 to 97 per cent between the estimated expenditure and actual expenditure pertaining to Objects were observed.
- (b) Even though provisions amounting to Rs.69,500,000 had been made in the year under review for the construction and rehabilitation of buildings, purchase of computer software and furniture and office equipment for laboratories and for training on capacity building, it was observed that the provisions had not been utilized for those purposes even by June 2016.

6. Systems and Controls

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

Areas of Systems and Controls

Observations

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| (a) Accounting | Failure in adhering to Sri Lanka Public Sector Accounting Standards. |
| (b) Control of Operations | Failure in planning research activities so as to fulfill the objectives of the Institute and to implement them. |
| (c) Stock Control | Failure in taking action in terms of Financial Regulations relating to slow moving stocks and idle stocks. |
| (d) Utilization of Vehicles | Non-implementation of a proper internal check due to carrying out all activities in respect of control and repairs of motor vehicles by the one officer. |