

National Science Foundation - 2015

The audit of financial statements of the National Science Foundation 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 40 of the Science and Technology Development Act, No. 11 of 1994. My comments and observations which I consider should be published with the Annual Report of the Foundation 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 Foundation'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 internal control of the Foundation. 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 the 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 Science Foundation 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 the Financial Statements

2.2.1 Accounting Policies

The accounting policy followed in respect of capital grants had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

Scientific and laboratory equipment costing Rs.5,004,108 purchased for research activities during the period from the year 1974 to the year 1998 which had been fully depreciated, had been vested with the relevant research institutions and as such, action had not been taken to eliminate the cost and the accumulated depreciation thereof from the financial statements.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Foundation for the year ended 31 December of the year under review had been a deficit of Rs.4,031,986 as against the surplus of Rs.9,763,678 for the preceding year thus indicating a deterioration of Rs.13,795,664 in the financial result of the year under review as compared with the preceding year. The increase in operating expenses by Rs.13,911,072 in the year under review had mainly attributed to the above deterioration.

3.2 Contribution

Even though there had been a surplus in the financial result of the years 2013 and 2014 in analyzing the financial results relevant to the period from the year 2011 up to the year under review, there had been deficits in the year under review and the years 2011 and 2012. However, considering the employees emoluments and depreciations for non-current assets, the contribution in the year 2011 had been Rs.53,822,305 and it had improved up to Rs.91,510,109 by the year 2015.

4. Operating Review

4.1 Performance

- (a) The functions of the National Science Foundation in terms of Section 10 of the Science and Technology Development Act, No. 11 of 1994 are as follows.
- (i) Initiate, facilitate and support researches by universities, science and technology institutions and scientists with a view to strengthening scientific research potential, developing the natural resources of Sri Lanka, promoting the welfare of the people of Sri Lanka and training research personnel in science and technology.
 - (ii) Foster the interchange of scientific information among scientists in Sri Lanka and foreign countries.
 - (iii) Award scholarships and fellowships for scientific study or scientific work.
 - (iv) Maintain a current register of scientific and technical personnel.
 - (v) Popularise science amongst the people by funding programmes for that purpose.
- (b) In the examination of fulfillment of above functions, there were 150 research projects valued at Rs.189,302,839 completed during the period from 2010 to 2015 and the following observations are made thereon.
- (i) Out of 150 completed research projects, 02 projects valued at Rs.3,049,000 had been submitted for the technology transfers (Improvement for commercialization) and 02 projects valued at Rs.1,782,200 had been submitted only for obtaining patents.
 - (ii) Only the objectives of the final result of the researches of the remaining 146 research projects valued at Rs.184,471,639 such as publishing of local and foreign scientific publications, using for communication, using for Master of Philosophy, Doctor of Philosophy and nomination for Presidential Awards had been fulfilled.
 - (iii) Out of the 150 completed research projects, 59 researches had been at the local publication level, 27 at the international publication level and 37 at the communication level while there had been no publication whatsoever for 27 researches.
 - (iv) Even though the final progress report should be submitted within 06 months of completing the project in terms of the Research Project Agreement relating to researches commenced before the year 2011, a delay of a period from 1 to 4 years was observed in issuing the final report in respect of 33 research projects at a cost of Rs.32,024,274 completed during the period from the year 2006 up to the year 2015.
- (c) Even though a maximum period of 03 years had been permitted to complete researches, that period had been extended in special instances. A period between 03 months and 01 year had lapsed by January 2016 after ending a further period given to 33 researches commenced by

spending a sum of Rs.64,565,489 in the years 2011 and 2012. Nevertheless, action had not been taken to complete researches.

4.2 Operating Inefficiencies

According to the Project Agreement, if there is a balance out of grants made for research projects after completing the researches, it should be settled within 30 days. Nevertheless, the balance of Rs.5,255,529 receivable from 28 projects completed in the year under review from grants made for the period from the year 2007 to the year 2013, had not been settled even up to 31 December of the year under review.

4.3 Idle and Underutilized Assets

The balances of 04 local and foreign bank accounts totalling Rs.6,112,676 as at 31 December of the year under review had remained underutilized.

5. Accountability and Good Governance

5.1 Procurement Plan

Even though the objective of the preparation of a Procurement Plan is to ensure timely completion of procurements in terms of Section 4.1.1(a) of the Government Procurement Guidelines, out of the planned procurement activities with an estimated value of Rs.94,282,000 for the year under review, the estimated value of procurement activities not completed was Rs.78,445,000.

5.2 Budgetary Control

The following observations are made.

- (a) Despite not having made provisions under recurrent expenditure from the budget of the year under review for foreign travelling expenditure of the officers who are in service, a sum of Rs.4,343,428 had been spent from the Capital Object for the grants of foreign tours in the year under review.
- (b) It was observed in audit that the budget had not been made use of as an effective instrument of management control in respect of capital expenditure due to making additional provisions of Rs.15,000,000 from the revised budget for the year under review for research and scientific purposes.

6. Systems and Controls

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

Area of system and control	Observations
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(a) Providing Research Grants and Supervision	(i) Non- maintenance of registers relating to evaluation of applications, documents relating to enrollment of research students and technical assistants and research files including details relating to evaluation of progress reports in an updated manner. (ii) Obtaining financial reports with delays relating to research projects and non-maintenance of the Grant Ledger in an updated manner. (iii) Existence of delays in transferring balance money of completed researches.
(b) Granting of equipment to Universities and Research Institutions	(i) Taking a long time for the purchase of equipment and failure in carrying out physical verifications on the equipment purchased and ensuring their existence. (ii) Failure in obtaining Annual Progress Reports on time. (iii) Failure in obtaining a copy of Inventory of the institution by which the equipment were granted, a copy of Goods Received Note and a copy of the Maintenance Agreement for two years promptly and failure in confirming their existence.
(c) Giving Technical Assignments	Failure in obtaining annual expenditure reports within the due period and updating the relevant Grant Ledger.