

National Institute of Fundamental Studies – 2016

The audit of Financial Statements of the National Institute of Fundamental Studies for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 the 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 judgment, 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 2016 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

As the useful life of non-current assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07, 15 items of fixed assets costing Rs.79,737,220 had been further utilized though they were fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Interest on fixed deposits receivable as at 31 December of the year under review amounting to Rs.4,148,299 had been shown as Rs.4,521,733 in the statement of financial position.
- (b) Accessories for the use of a laboratory equipment purchased on 05 May of the year under review by incurring a sum of Rs. 1,200,000 should have been capitalized under plant and equipment but it had been accounted as revenue expenditure in the year under review.

2.2.3 Lack of Evidence for Audit

Evidence in respect of 2 items of accounts totalling Rs.549,279,345 in the year under review indicated against each item was not made available for audit.

Item	Value	Evidence not made available
	Rs.	
(a) Fixed Assets	524,363,994	Register of fixed assets.
(b) Laboratory equipment, tools and furniture show under current assets	24,915,351	Evidence to establish the existence.
	----- 549,279,345 =====	

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

The following non-compliance were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <hr/> <p>(i) Financial Regulation 103</p> <p>(ii) Financial Regulation 135</p> <p>(iii) Financial Regulation 137</p>	<p>(i) Action in terms of financial regulations had not been taken in respect of 143 items valued at Rs.4,772,606, identified as untraceable by the Board of Survey.</p> <p>(ii) Action had not been taken in terms of financial regulations in respect of 809 books identified as shortages at the Board of Survey for the year 2016.</p> <p>Even though the National Institute of Fundamental studies had incurred an expenditure of Rs.358,285,716 during the year under review, financial authorities had not been delegated in terms of Financial Regulations.</p> <p>Two vouchers valued at Rs.12,881,992 had been paid without being approved.</p>

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| (iv) Financial Regulation 139 | Payment of Rs.429,652 had been made to 5 payment vouchers in the year under review without the certificate of the Deputy Accountant. |
| (v) Financial Regulation 225 | All payments must be supported by vouchers, prepared accurately and completely in the Form General 35 and for general payments, recommendation and approval should be ensured by placing signature and rubber stamp of the relevant officers. Action had not been taken accordingly in respect of 2,715 payment vouchers paid in the year under review. |
| (vi) Financial Regulation 371 (2) | Although a maximum of Rs.5,000 can be paid at a time from the petty cash imprest, payments ranging from Rs.7,500 to Rs.12,000 had been made in 4 instances to the contrary. |
| (b) Employees Provident Fund Act No.15 of 1958 and letter No.ප්‍ර/ආයතන/11 dated 24 August 2001 of the Commissioner of Labour. | Even though the academic allowance should not be taken into account in the calculation of contributions to the Employees Provident Fund and the Employees Trust Fund, contrary to that, an overpayment of Rs.3,011,258 had been made as the employers contributions based on the academic allowance. |
| (c) Public Finance Circular No.438 of 13 November 2009. | Goods valued at Rs.7,977,978 had been informally removed from use and stacked un-protectively in the office premises. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the year ended 31 December 2016 had been a deficit of Rs.44,817,129 as compared with the deficit of Rs.50,269,507 for the preceding year. An improvement of Rs.5,452,378 had indicated under review as compared with the preceding year. Accordingly, though employees remuneration had increased by Rs.9,220,529 as compared with previous year, increase of recurrent grants by Rs.27,000,000 had mainly attributed to this improvement.

In analyzing the financial results for the year under review and the preceding 4 years, deficits were indicated from the year 2012 to 2016, but after considering the employees remuneration and depreciation on non-current assets, the contribution of Rs.72,927,520 in the year 2012 of the Institute had increased to Rs. 125,454,329 in the year 2016.

4. Operating Review

4.1 Performance

According to the National Institute of Fundamental Studies Act No.55 of 1981, the objectives of the Institute are as follows.

- To create an interest in and to provide facilities for fundamental and advanced studies and in particular to initiate, promote and conduct research and original investigations in fundamental studies in general with particular emphasis on mathematics, physics, chemistry, life science, social sciences and philosophy.
- Arrange lectures, meetings, seminars and symposia in pursuance of its academic, work and for the defusion of scientific knowledge.
- Invite scientists in Sri Lanka and from abroad, actively engaged in creative work to deliver lecturers and participate in its academic activities.
- Establish and maintain liaison with scientific workers and scientific institutions in other countries and promote international Co-operation in matters relating to the aims and objects of Institute.
- Do such other acts and things as may be necessary to promote the aims and objects of the Institute.

The following observations are made in this connection.

- (a) About 30 year had lapsed after the establishment of the National Institute of Fundamental Studies, number of patents rights obtained by the Institute was only 11. However, only one patent certificate had been used within Sri Lanka for Economic and Commercial activities.
- (b) Even though patent rights bearing No.9772 and 9873 had been obtained in the years 1987 and 1988 respectively for the manufacture of super phosphate and Ammonium phosphate fertilizer, they had not been practically implemented even by the year 2017. It was observed that Sri Lanka spends a lot of foreign exchange to import such fertilizer.

4.2 Operating Activities

Even though more than 01 year had elapsed after paying advances totalling Rs.100,591 in 2 instances to purchase library books, chemicals and other equipments from a foreign institution in the years 2013 and 2015, action had not been taken to get these books or equipments.

4.3 Transactions of contentious Nature

The following observations are made.

- (a) Even though the house rent of Rs.160,570 payable for official quarters used by the officers of the Institute belonging to the Mahaweli Authority which had not been formally acquired, should have been recovered from the occupants and remitted to the relevant institution, a sum of Rs.101,000 had been paid in the year under review from the Fund of the Institute.
- (b) As a damage caused to a cable of the Sri Lanka Telecom in the preparation of lands for the construction of access road by a Private Company, the loss estimated by the Telecom amounting to Rs.658,744 had been paid by the Institute of Fundamental Studies even though it had to be recovered from the contractor.

4.4 Under utilization of Funds

Out of the government capital grants of Rs. 144,999,579 received during the year under review, a balance of Rs.85,975,718 and a sum of Rs.45,253,912 received during the previous years had been shown under unspent government grants without being utilized for the relevant purposes.

4.5 Idle and Under utilized Assets

A motor cab which had been revalued at Rs. 1,200,000 on 16 February 2015 had been removed from running and parked in the premises of the Institute since 21 January 2016 to the date of audit.

4.6 Procurement and Contract Process

The following observations are made.

- (a) In terms of Paragraph 55 (f) of part XI of the Construction Industries Development Act No.33 of 2014, specimen forms specifically introduced should be used for construction activities of all government and semi government institutions. Nevertheless, the National Institute of Fundamental Studies had not used specific agreement forms in respect of construction works totalling Rs.43,985,981 and entered in to informal agreements. As a result, legal action in respect of abandoned projects and delayed construction works could not be taken or to recover fines.

- (b) Mobilization advances of Rs. 13,855,793 had been paid for 6 contracts, the works of which should have been commenced during the year under review and to be completed within a period of 4 months. Works of these constructions had not been completed even though more than one year had elapsed and action had not been taken to get the period of contract extended as well. The periods of advance bonds presented for mobilization advances had expired and action had not been taken to recover the mobilization advances of Rs.13,855,793 further existed.
- (c) In terms of Section 7.9.2 (j) of the Procurement Guidelines manual, when bids with large price gaps are presented, bid evaluation should be carried out by comparing the prices of other bidders for each item of work with the prices stated in the Engineering estimate. However, in the bid evaluation of the construction contracts, the cost of Engineering estimate of which amounted to Rs.5,472,685, each item had not been evaluated and as such the contract had been awarded for Rs.5,481,618 to the qualified bidder who had quoted less than 6700 per cent of the other bidder and less than 90 per cent of the price stated in the Engineering estimate for item 24 of the Bill of Quantity.
- (d) Although a sum of Rs.4,620,420 had been paid for 420 square feet to build concrete tables for the research Laboratory in the construction of the new building of the National Institute of Fundamental Studies as originally planned, subsequently those concrete tables had been broken and removed, stating that they were not in compliance with standards for research activities. Instead, wooden tables had been made and as such the Institute had incurred a financial loss of Rs.4,620,420 which had been spent for making concrete tables.
- (e) A sum of Rs.814,925 had been spent in the year under review to spread concrete blocks on the front premises of the National Institute of Fundamental Studies in the area of 675 square meters (675 m²). Nevertheless, by the time of audit examination, lots of places where cement blocks were spread had been subjected to sink and water was remained therein. Furthermore, action had also not been taken to make the premises properly in a manner to flow the accumulated water in that area.

4.7 Personnel Administration

In view of the existence of 20 vacancies of officers in the Research Staff by 09 March 2017, it had hindrance to reach the objectives of the Institute at an optimum level.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging from 6 per cent 1684 per cent in 14 items were observed between the budgeted income and expenditure and the actual income and expenditure of the year under review, thus the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in Systems and Controls observed in audit had been brought to the attention of Director of the Institute from time to time. Special attention is needed in respect of the following areas of Systems and Controls.

	Area of Systems and Control -----	Observations -----
(a)	Accounting	Non-compliance with Sri Lanka Public Sector Accounting Standards.
(b)	Stock Control	(i) Action not taken in terms of financial regulations in respect of slow moving and obsolete stocks. (ii) Segregation of duties in respect of purchase of Chemical and Laboratory equipments, not having an internal check.
(c)	Constructions Activities	Non-compliance with Laws, Rules and Regulations, deviation from proper supervision.
(d)	Motor vehicles control	As one officer had been doing all the activities in respect of vehicles control and repairs, a proper internal check was not in operation.
(e)	Personnel Administration	Segregation of duties not subjected to an internal check.