

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Fundamental Studies for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effect 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 Institute as at 31 December 2022, 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 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 judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risk 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 institution'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 body 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non- compliance with the Sri Lanka public sector Accounting Standards

Non- compliance with the reference to the relevant standard	Management comment	Recommendation
(a) The useful life of non-current assets had not been annually reviewed In accordance with paragraph 65 of Sri Lanka Public Sector Accounting Standard and despite been fully depreciated, non- current assets costing Rs. 202, 029,783 were further in use. No action had been taken to revise the relevant estimated error in terms of Sri Lanka Public sector Accounting Standard 03.	Action has been taken to revalue the fixed assets in accordance with Sri Lanka Public Sector Accounting Standard No 07.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards.
(b) Capital grants of Rs. 25,000,000 and donations of Rs. 1,327,215 received during the year under review, had not been accounted in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11.	The financial statements of the year 2023 will be prepared in accordance with Sri Lanka Public Sector Accounting Standard 11.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards
(c) Although the Institute had obtained 14 patents, by the end of the year under review, the value of thereof had not been assess and brought to account as intangible assets in terms of Sri Lanka Public sector Accounting Standard 20.	Further actions have been taken to account for the value of the patents of the Institute.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) In the year 2021, the present value of the annual rent value of the Hanthana Pathana estate acquired on a lease basis for a period of 30 years at a value of Rs.22,440,000, had not been accounted for under assets and liabilities	Due to not being able to receive the information of the agreement within the specified period, it had not been possible to include it in the final accounts of 2022 and accounting will be done in the future.	The present value of the leased land should be calculated and should be account.
(b) In a previous year, the valued amount of Rs. 233,190,000 of the land had not been accounted in the same year and entered that amount in the reviewed financial statement. When accounting this amount, the cost of that land value of Rs. 42,104,173 had not been transferred to the revaluation account, the land value and the revaluation Reserve of Rs. 42,104,173 had been shown over stated in the financial statements.	The overestimation of the land and the revaluation reserve of Rs. 42,104,173 will be corrected in the preparation of the financial statements of the year 2023.	Assets should be properly accounted in accordance with generally accepted accounting principles.
(c) Although the Income of Rs.1,441,300 had been received from auctioning 50 units of assets item, action had not been taken to calculated cost and accumulated depreciation and remove from the relevant account during the year under review.	The cost and accumulated depreciation of the relevant assets will be calculated and properly accounted in the future.	Accepted accounting principles should be followed.

2. Financial Review

2.1 Financial Results

The financial result for the year under review was a deficit of Rs. 82,377,491 as compared with deficit of preceding year amounting Rs.102, 650,637. Accordingly, an increase of Rs. 20,273,146 was shown in the financial result. This increase was mainly due to increase in recurrent grant and decrease in the depreciation.

3. Operational Review
3.1 Management Inefficiencies

Audit observation	Management comment	Recommendation
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<p>(a) After the sale of the patent, there had not been obligation in the agreement that the company should bear the expenses for the same, during the period from 2014 to the end of the reviewed year, an amount of Rs. 138,931,059 had been spent for the research activities of the Biofilm Bio Fertilizer project. However, the company that sold the patent had received Rs.7,380,146 as Royalty Payment from the year 2014 to the end of the reviewed year without verifying the accuracy of the income of the company by referring to the audit financial account.</p>	<p>After the year 2014, money has been spent to observe how the findings of this project can be used for other crops and to observe the possibility of completely stopping the use of urea fertilizers and using only compost fertilizer for paddy cultivation.</p>	<p>The agreement should be followed.</p>
<p>(b) Although the board of management had decided to stop the integrated software system, which had been implemented without proper feasibility study, action had not been taken to charge the advance amount of Rs.660,000 paid to the contractor from the responsible officials.</p>	<p>That the usable parts of the software will be used from January 2023 to improve the system.</p>	<p>Action should be made to cover the advance.</p>

3.2 Operational Inefficiencies

Audit Observation	Management comment	Recommendation
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<p>The Waste water Treatment at Service Station research project that had been implemented at a cost of Rs. 6,500,000 and 03 other research projects which had not been identified the values, at the end of the year under review.</p>	<p>Institute was unable to continue these research projects due to lack of funds and research assistants.</p>	<p>Research activities should be completed in such a way that the desired objectives can be achieved</p>

3.3 Underutilization of Funds

	Audit observation -----	Management comment -----	Recommendation -----
(a)	The 09 research grants of Rs.3,251,129 are remained idle for more than a year.	These funds will be used effectively in the year 2023.	The funds should be effectively utilized for the respective purposes.
(b)	The 14 patents received in relating to 14 research projects from the establishment of the institute had not been sold or used in any other way by the end of the year under review.	Board of management has been given approval to commence procurement activities relating to the sale or commercialization of the patents obtained.	Patents should be used optimally.