

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Science Foundation (“Foundation”) 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 effects 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 Foundation as at 31 December 2022, and of its financial performance and its 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 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 Foundation’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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Foundation 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 Foundation.

## 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 judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks 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 Foundation'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 Foundation'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 Foundation 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 Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation;

- Whether the Foundation has performed according to its powers, functions and duties; and
- Whether the resources of the Foundation 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 Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, the fixed assets have been fully depreciated, but the cost value still in use was Rs.94,525,117. The estimation error about the effective lifetime of those assets had not been revised and adjusted in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 03.	A review of the effective lifetime of these assets is already underway. The review of depreciated assets will be completed during the year.	Financial statements should be Prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(b) According to paragraph 07 of Sri Lanka Public Sector Accounting Standard 01, the expenses of the following years in the renewal of licenses of 03 types of software were also taken as the expenses of the year under review. Due to this, the surplus of the year was understated by Rs.428,819.	I agree with the observation. The overstated amount as per the periods and values is Rs.428,819. The relevant correction was made on 22 May 2023.	Financial statements should be Prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(c) The policy disclosed that in accordance with paragraph 35 of the Sri Lanka Public Sector Accounting Standard 9, the Foundation uses the first-in, first-out method of accounting for inventory costs. But Instances of non-	I agree with the observation. In practice, the first-in first-out system has been followed in issuing stock. But in accounting, several instances of non-compliance with the relevant method were observed. Action is being taken to correct.	Financial statements should be Prepared in accordance with Sri Lanka Public Sector Accounting Standards.

compliance with the policy were observed in the issue of stock by the stores. Due to this, the value of Rs.2,662,612, which was the published cost of the reviewed year, had been recognized by the institution as Rs.2,572,118. As a result, the cost was understated by Rs.90,494.

### 1.5.2 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 4 of the Public Enterprises Circular No. PED 1/2015 dated 25 May 2015	Senior Management of the Institute should ensure that adequate systems and procedures are in place for proper control and maintenance of pool vehicles and should be cost conscious. Accordingly, group transportation facilities should be provided. But, on the contrary, Rs.826,044 had been paid for group transportation in the year under review.	The use of taxis for group transport has been completely stopped from middle in the year 2022. Also, provision of group transport facilities was reduced to 02 days per week.	Action should be taken in accordance with the Circulars.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

Audit Observation	Management Comment	Recommendation
The creditor balances amounting to Rs.2,045,055 over 5 years and Rs.823,540 over 2 years total amounting to Rs.2,868,595 had not been settled during the year under review.	The creditor balance of Rs.2,045,055 for the cinnamon project should be paid to the Ministry of Small Scale Industries, which provided the allocation. The final expenditure report of one of the 05 research grants related to this project is to be received. As soon as it is received, steps are taken to settle the balance after expenditure comparison between the institutions.	Action should be taken to settle the payables.

This balance of Rs.843,540 is a donation for Covid 19 research and the final expenditure report has not been received yet. As soon as it is received, the remaining amount will be settled or used for other projects of the Foundation.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a deficit of Rs.38,548,294 and the corresponding deficit in the preceding year amounted to Rs. 12,722,038. Therefore a deterioration amounting to Rs. 25,826,256 of the financial result was observed. The main reason for the deterioration was decrease in the capital grants by Rs.45,672,900 during the year under review.

## **3. Operational Review**

### **3.1 Uneconomic Transactions**

#### **Audit Observation**

On July 21, 2014, appointment letters were issued to 02 officers of the foundation for the position of Accounts Officer on the basis of wrong decisions made in a corporate administrative procedure and later those appointments were cancelled. As a result, the relevant party filed a case in the Colombo Arbitrator's Division and the Industrial Court. According to the decisions given there, it was agreed to give appointments and the legal fee of Rs.130,000 incurred for that was an uneconomic expense.

#### **Management Comment**

Since 2014, attempts were made to solve the problem of accounts officers internally but without success, the investigation of the complaint filed in the district labor office was started. However, as there was no suitable officer to represent the institution in this case, the services of a lawyer were obtained upon the approval of the Board of Management and legal fees of Rs.130,000/- were paid for it.

#### **Recommendation**

Management decisions should be made in an efficient and effective manner.

### **3.2 Operational Inefficiencies**

#### **Audit Observation**

- (a) According to paragraph 2.4 of the Health Sciences Research Project Agreement, the balance should be settled within one month after the completion of the project. But the researchers had not settled the

#### **Management Comment**

RPHS/2016/DTM 02, CKDu 03, CKDu 05 and CKDu 07 should settle the balance.

#### **Recommendation**

According to 2.4 of the agreement, the control systems should be improved so that the remaining amount can be

remaining total amount of Rs.3,891,870 related to 04 projects.

settled within one month after the completion of the project.

- (b) Due to the provision of funds without proper identification of the need, the amount given for 02 research projects in health sciences was Rs.08 million out of Rs.10 million and remained idle in the research projects for almost a year.

I agreed with the observation. Due to lack of funding, the project was carried out using funds from the RPHS / 2016 / DTM / 01 project for the RPHS / 2016 / CKDu / 01 research project.

Under the project RPHS/ 2016/ CKDu /03, only payment for labor was made as the mobilization activities were carried out during the first 6 months.

Where provision is not utilized properly, controls should be put in place so that it can be recovered within a reasonable period of time.