

**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 2023 comprising the statement of financial position as at 31 December 2023 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 Institute as at 31 December 2023, 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 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 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 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 risks 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**

<b>Non-compliance with reference to relevant standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
In accordance with Sri Lanka Public Sector Accounting Standard 20, the value of six patents held by the institution as of 31 December of the year under review had not been assessed and accounted for as intangible assets.	A committee comprising the institution's scientists and officials from the Innovation Institute is currently engaged in the process of assessing the patents.	Actions should be taken in compliance with Sri Lanka Public Sector Accounting Standards.

### **1.5.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The Hantana Pathana Estate, acquired on a lease basis at a value of Rs. 22,440,000 for a period of 30 years during the preceding year, had not been accounted for by identifying an appropriate accounting policy.	The National Housing Development Authority has not taken action to send the registered deed of lease of the Hantana Pathana Estate to the institution as yet.	Steps should be taken to properly identify and account for the assets of the institution.
(b) Instead of being written off or recorded under the assets until recovered, the net value of Rs. 2,723,251 for damaged, unusable, and untraceable assets removed from the fixed assets account, after deducting the above value from the revaluation reserve amounting to Rs.10,996,955 related to those assets, a sum of Rs. 8,273,704 had been shown as the net value of fixed assets under non-current liabilities.	In accordance with the institute's accounting policies, relevant adjustments are made when assets are removed, rather than removing the revaluation reserves annually.	Actions should be taken in accordance with accepted accounting principles.

- (c) Due to stating Rs. 2,942,550 as arrears of salaries and Rs. 2,859,212 as other payments under operating activities in the cash flow statement for the year under review, a discrepancy of Rs. 83,338 was observed in the cash flow statement.
- Action will be taken to correct this discrepancy in the future.
- Actions should be taken in accordance with accounting principles.

### 1.5.3 Lack of Documentary Evidence for Audit

Item	Amount (Rs.)	Audit Evidence not Furnished	Comment of the Management	Recommendation
Research Projects	100,040,521	Contract files and other documents.	The relevant files will be submitted for audit.	All relevant information should be submitted for audit.

### 1.6 Non-compliance with laws, rules, regulations, and management decisions.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Management	Recommendation
Circulars -----			
(a) Section 9.12 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	Without the approval of the Department of Public Enterprises and the Treasury, a sum of Rs. 6,582,112 had been paid as the institution's contribution to the Employees' Aggrahara Insurance Fund from 2019 to 31 December 2023, and an amount of Rs. 4,300,820 was paid as refreshments expenses of the employee for the year under review.	Approval from the Public Enterprises Department and the Treasury was not separately obtained and that the amount was included in the budget for the year.	Action should be taken in accordance with instructions given in circulars.

- (b) Section 3.2 of the Public Enterprises Circular No. PE 01/2021 dated 16 November 2021. Although the annual report, including performance for the previous year, should be submitted to Parliament in all the three languages within 150 days after the end of the financial year along with the audited report, the annual reports for the years 2020, 2021, and 2022 have not yet been submitted to Parliament. The relevant amendments have been made and the reports have now been sent to the Ministry. Action should be taken in accordance with instructions given in circulars.

## 2. Financial Review

### 2.1 Financial Results

The financial result for the year under review was a surplus of Rs. 4,242,947, as against the deficit for the previous year amounting to Rs. 38,707,333. Accordingly, there was an increase of Rs. 42,950,280 in the financial result. This increase was mainly due to the rise in recurrent grants and capital grants.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Although the matured investments of Rs. 201,880,632 related to 20 fixed deposit accounts belonging to the Employees' Provident Fund of the institution should have been reinvested by calling for bids during the year under review, without doing so, it had been reinvested with the same bank.	Due to the rise in interest rates amidst prevailing economic crises, and because it would take time to conduct a formal bidding process, the institution has verbally inquired about rates and made the best possible investment option.	Funds should be invested in a manner that ensures efficiency and maximizes returns.

### 3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A piece of land belonging to the National Housing Development Authority had been leased for a period of 2 years, with Rs. 1,496,000 paid for it. However, the land had remained idle without being utilized for its intended purposes.	Research projects are proposed to be started in the year 2024.	Assets should be utilized at maximum capacity to achieve the expected objectives.

- |     |   |  |   |
|-----|---|--|---|
| (b) | Outside the approved procurement plan for the year under review and without authorization, 07 procurement activities totaling Rs. 14,350,305 had been carried out during the year under review. | As instructions had been given to expedite the completion of 7 projects in the Dambulla Trees Garden under the provisions of the Ministry of Environmen, these projects were not included in the procurement plan. | Actions should be taken in accordance with the approved procurement plan. |
|-----|---|--|---|

### 3.3 Underutilization of Funds

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Since the inception of the institute, 06 patents related to 06 research projects had been received up to date. Nevertheless, no action had been taken to either commercialize or utilize them in any other manner even by the end of the year under review.	The procurement activities have commenced for the patents that are currently active.	Patents should be utilized in an optimal manner.
(b) Funds amounting to Rs. 1,333,984 allocated for 09 research projects during the year under review remained idle and unutilized within the year.	Funds for 03 projects have been utilized during the year 2024, and the remaining funds are to be credited to the research fund.	Funds should be utilized effectively for the relevant activities.