

National Innovation Agency -2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Innovation Agency (“Agency”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 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 Agency as at 31 December 2024, 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 Agency’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 Agency or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope

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 Agency'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 Agency'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 Agency 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 Agency, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Agency has complied with applicable written law, or other general or special directions issued by the governing body of the Agency;
- Whether the Agency has performed according to its powers, functions and duties; and
- Whether the resources of the Agency 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
In accordance with paragraph 59 of the Sri Lanka Public Sector Accounting Standard No. 19, gratuity provisions should be calculated under the defined benefit plan method. However, the Agency has not made any provision for gratuity payments in the financial statements from the beginning.	Funds for gratuity payments will be allocated starting from the year 2025.	Actions should be taken to allocate gratuity in accordance with the Sri Lanka Public Sector Accounting Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
Audit fees amounting to Rs.219,480, relating to the years 2022 and 2023, were accounted for as an expense in the year under review. As a result, the surplus for the year was understated by that amount, while the accumulated fund was overstated by the same amount.	In the future, action will be taken to estimate and accurately account for the audit fees related to the year.	Actions should be taken to recognize the expenses for the year against the surplus on the accrual basis.
The surplus for the year was overstated, and current liabilities were understated, as the audit fee expense		

had not been accounted for in the year under review.

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

	Reference to Laws, Rules Regulations etc.	Non- compliance	Management Comment	Recommendation
(a)	Section 40(1) of the National Audit Act, No. 19 of 2018	During the year under review, the Agency did not conduct any internal audit.	As the Agency is small, no internal auditor has been appointed. The responsibility for auditing has been assigned to the Ministry's Audit Division, and it is expected that the audit will be conducted properly during the current year.	Internal audit activities should be conducted in accordance with the provisions of the National Audit Act.
(b)	National Innovation Agency Act, No. 22 of 2019			
(i)	Section (d) of 3	Although the Agency's objective is to coordinate innovators and initiators to achieve improved outcomes, only a single coordination program was organized for this purpose during the year under review.	The "Dolphin Tech Pitch" program is organized to connect innovators with investors who have the potential to create a substantial national impact. Since innovations of this level arise in Sri Lanka only once every two to three years, the single program held in 2024 is of significant national importance. In addition, the service has been continuously provided through the B2P virtual platform in line with the objectives of the above-mentioned section.	Steps should be taken to plan effectively and implement those plans in order to achieve the objectives set out in the Act.

(ii) Section (f) of 3	Although the objective of the Act is to support and facilitate private sector innovation to establish a vibrant national innovation ecosystem, no steps were taken to support private sector innovation during the year under review.	In 2024, the second phase of the Dialog Innovation Challenge will be supported and facilitated, while the Japan International Cooperation Agency and Deutsche Bank will collaborate to build a start-up ecosystem to promote private sector innovation and provide accelerator facilities, which are a key component of this initiative.	Steps should be taken to plan effectively and implement those plans in order to achieve the objectives set out in the Act.
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.4,490,805 and the corresponding deficit in the preceding year amounted to Rs.1,347,843. Therefore, an improvement amounting to Rs.5,838,648 of the financial result was observed. This increase was mainly due to an increase in Treasury Grant receipts of Rs.17,960,360 compared to an increase in building rental expenses of Rs.3,549,487 and supplies and consumption of Rs.6,369,355.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the Board of Survey conducted in 2024 identified 19 computers in the Agency as unusable and 7 as repairable, no action had been taken since 2023. During the year under review, 04 desktop computers remained operational, and 10 laptops were purchased at a total cost of	Considering the officers' duties, providing laptops rather than desktop computers was necessary. Accordingly, as the computers in use were approximately 11 years old and had become highly inefficient for	When acquiring assets, organizational needs should be properly assessed and purchases made accordingly.

Rs.4,820,300. As a result, the Agency had a surplus of 08 computers with the consideration of its staff requirements, indicating that the institutional needs had not been properly forecasted when incurring expenses.

performing their duties, ten laptop computers were purchased in 2024. However, due to the recruitment of five new staff members during the year, four of the seven repairable computers were assigned for their use. The remaining three repairable computers and four desktop computers have been assigned to private sector innovators receiving accelerator facilities for use on the institution's premises. Consequently, the institution no longer has a surplus of computers.

- (b) The National Innovation Report 2024 for the year, covering information from the past five years, was prepared, with Rs. 2,266,200 expended to print 200 copies. As of the audit date 18 March 2025, 79 copies of the report, with a total value of Rs. 895,070, had not been distributed. Out of the 23 copies expected for sale to external parties at a price of Rs.10,000 per copy, only 4 copies had been sold.
- In accordance with Act No. 22 of 2019, the Agency is required to publish a National Innovation Report on an annual basis. As this is the first time the report is being published, the report includes 107 innovations that have not yet gained public recognition but have directly contributed to the national economy and were successfully commercialized within the past five years. The National Innovation Report 2024 will be distributed to identified recipients, with the remaining 23 copies to be sold at Rs. 10,000 per copy.
- The printing of such reports should be based on a proper assessment of actual requirements, and the remaining copies should be distributed in a useful and effective manner.

- (c) The Agency entered into an agreement with the Sri Lanka Computer Emergency Response Team (CERT) to conduct a security assessment of its website, to be completed within 14 working days at a cost of Rs.248,000. Although an initial payment of 50 percent Rs.124,000 was made on 23 June 2024, the institution had not received the certificate for the assessment as of 31st March 2025.
- Fifty percent of the agreed amount was paid to the Sri Lanka Computer Emergency Response Team (CERT) on June 23, 2024. The balance was to be settled only after the assessment certificate was received. After implementing the necessary changes and repairing the website again, the forum agreed to complete the relevant assessment. Accordingly, it is expected that the remaining amount will be paid to the association promptly upon receipt of the assessment certificate.
- Steps should be taken to obtain an accurate valuation certificate by the required due date.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
The modern B2P virtual platform was developed in 2023 at a cost of Rs. 555,890 to enhance collaboration by seamlessly connecting innovators, investors, and industries in a digital environment. However, no investors were registered on this virtual platform from 2023 to December 2024. In 2024, only 27 research papers were exhibited on the platform. Due to insufficient awareness among innovators, investors, and industrialists, the platform was unable to achieve its intended objectives.	It is acknowledged that no investors registered on the virtual platform from 2023 to December 2024, and that there has been insufficient awareness among researchers, innovators, investors, and industrialists regarding this facility. Consequently, the Agency has not yet achieved the desired objectives of the platform.	In the future, plans should be developed to utilize this virtual platform accurately and effectively to achieve its objectives, and actions should be implemented in line with the Agency's goals.

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendation
Although the term of the officer appointed to coverup as the Chief Innovation Officer ended on November 30, 2024, approval had not been obtained for the continuation of duties beyond that date. Approval had not been received from the Department of Management Services for a driver position within the approved cadre.	The Board has approved to continue performing duties of the officer appointed as the acting officer for the post of chief Innovation officer from 01st December 2024 until 30th November 2025. It is agreed that no approved has been received from the department of management services for a driver position.	The posts should be approved as per the schedule, and the vacancies should be recruited. Steps should be taken to appoint a permanent officer instead of making cover-up appointments.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Management Comment	Recommendation
Although Rs. 3 million had been allocated for the development of the digital platform for efficient connectivity (Project 2) as per the action plan, the development work remained incomplete in 2024.	Although Rs. 3 million was estimated for the construction of the digital platform SOLVE Sri Lanka (Project 2), the project was not completed in 2024.	Plans should be formulated based on practical conditions, and actions should be implemented in accordance with the prepared plan.

4.2 Budgetary Control

Audit Observation	Management Comment	Recommendation
During the year under review, the balances of 12 budgeted expenditure items of the Agency ranged from 54 percent to 100 percent, and no expenditure had been incurred from the amount estimated for 5 expenditure items.	Many tasks could not be completed in 2024 due to inefficiencies in procurement and other office work, as well as vacancies in the positions of staff recruitment an accountant.	Planning should be formulated taking practical circumstances into consideration, and actions should be implemented in accordance with the prepared plan.