

National Research Council of Sri Lanka - 2015

The audit of financial statements of the National Research Council of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 19 of the National Research Council of Sri Lanka Act, No. 11 of 2016. My comments and observations which I consider should be published with the Annual Report of the Council 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 judgement, including the assessment of 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 Council's preparation and fair presentation of 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 Council'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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Research Council of Sri Lanka as at 31 December 2015 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

When items of revenue and expenses are material, their nature and amount should be disclosed separately in terms of Sri Lanka Public Sector Accounting Standard 01. Nevertheless, other receipts, employees' remuneration, consumption and supplies and other items of expenses shown in the statement of financial performance, had not been so disclosed.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

In the purchase of a machine valued at Rs.1,927,557 all decisions from opening bids up to the purchase of the machine had been taken by the Technical Evaluation Committee contrary to Section 2.5.1(f) of the Procurement Guidelines despite having appointed a Procurement Committee for the Council.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Council for the year ended 31 December of the year under review had been a surplus of Rs.1,224,913 as compared with the corresponding surplus of Rs.655,050 for the preceding year thus indicating an improvement in the financial result by Rs.569,863 in the year under review as compared with the preceding year. Even though supplies and consumer services expenses, employees' remuneration and depreciation for fixed assets had increased by Rs.12,707,760 and research and development income had decreased by Rs.4,895,789 in the year under review as compared with the preceding year, the increase in Government contribution for recurrent expenditure and other income by Rs.2,557,658 and the decrease in research and development expenditure and other expenditure by Rs.15,616,850 had mainly attributed to the increase of the surplus.

Even though a deficit had been seen in the financial result of the Council in the years 2011 and 2013, in taking into consideration the employees' remuneration and depreciation for non-current assets, a continuous improvement was observed in the contribution from the year 2011 to the year 2015 and it was Rs.46,614,567 in the year under review.

4. Operating Review

4.1 Performance

In terms of Section 3 of the National Research Council of Sri Lanka Act, No.11 of 2016, the objectives of the Council are as follows.

- ❖ Assisting the Government to facilitate research relating to science and technology in order to build a vibrant scientific and technological community in the country.
- ❖ Promoting and facilitating research relating to science and technology in higher educational institutions and public sector research institutes and other Governmental institutes so as to develop a research base that will contribute to national needs; and
- ❖ Soliciting the co-operation of the private sector in the enhancement of research relating to science and technology.

The following matters were observed at the examination carried out in respect of fulfilling the above objectives.

- (a) Grants totalling Rs.507,944,787 had been provided for 148 Research Projects from the year 2005 to the year 2011 and out of 90 completed projects, completion of 25 projects valued at Rs.79,354,079 had elapsed from 01 year to 02 years exceeding the period of completion. Moreover, no local or foreign publication whatsoever had been made for 34 projects valued at Rs.78,819,118.
- (b) Even though a period ranging from 04 months to 11 months had lapsed by the end of the year under review since the receipt of the final reports of 09 projects valued at Rs.71,234,289, those reports had not been evaluated and 49 projects valued at Rs.164,558,285 had not been completed even by 31 December of the year under review.
- (c) Even though purchases should be made within 06 months of releasing financial provisions for equipment in terms of the Research Project Agreement, periods ranging from 01 year to 02 years had elapsed in purchasing equipment relevant to a sum of Rs.13,551,179 granted for 08 research projects in the year 2013. Further, a sum of Rs.3,481,048 out of the amount credited to the Bank Current Account had remained idle even by 31 December of the year under review due to failure in purchasing equipment necessary for a research project and a total of Rs.7,929,184 relevant to 03 abandoned projects for the years 2011 and 2013 had been transferred again to the Council after retaining in current accounts for a period of 01 year. Certain projects had to be abandoned due to such delay in purchasing and the projects due to be completed within the specified period of 03 years could not be completed.

4.2 Management Activities

The following observations are made.

(a) Weaknesses in Project Management

- (i) The entire provisions relevant to the period of 03 years had been credited to the current accounts under each project by the Research Council at the commencement of the research itself instead of providing cash from time to time considering the performance in making provisions for projects. Accordingly, the lump sum had been provided without specifically identifying the financial requirement. As such, out of the sum of Rs.812,304,931 granted for 244 individual research projects during the period from the year 2011 to the year 2015, a total of Rs.319,814,308 relating to 167 projects had remained idle in the current accounts even by the end of the year under review.
 - (ii) Even though the assets purchased from Treasury provisions for research projects should be vested in the relevant research institution or transferred to another research project, once the project is completed, action had not been taken to transfer assets valued at Rs.64,982,879 or utilize them in other research projects due to matters such as failure in submitting final reports and evaluation relating to 35 projects lapsed from 03 months to 02 years after the completion of the projects.
- (b) Even though the duration of 75 research projects granted in the years 2012 and 2013 had been extended from 03 months to 02 years, conditions on the extension of the durations had not been included in the research project agreements.

4.3 Operating Inefficiencies

Action had been taken to settle the saving totalling Rs.390,679 ranging from 20 per cent to 100 per cent out of the advances granted in 16 instances due to granting of advances without properly studying the requirement.

5. Accountability and Good Governance

5.1 Action Plan

Even though the Research Council had specifically implemented the individual research projects, target oriented multidisciplinary research projects and public private partnership research projects, the provisions made for each group had not been shown separately in the Action Plan prepared for the year under review.

5.2 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and an internal audit had not been carried out by the Internal Audit Unit of the Ministry as well.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Council from time to time. Special attention is needed in respect of updating inventories and stock registers and conduct of annual survey of stocks.