

National Engineering Research and Development Centre  
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1. Financial statements  
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1:1 Opinion  
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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the National Engineering Research and Development Centre of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements  
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1:2:1 Sri Lanka Accounting Standards  
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The following non-compliances were observed.

- (a) Contrary to Standard 9, fixed deposits amounting to Rs.5,239,980 over 03 months had been included under the cash and cash equivalents.
- (b) Even though an allocation of Rs.62,717,094 had been made for the payment of employees' gratuity, that amount had not been invested.

1:2:2 Accounting Deficiencies  
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The following accounting deficiencies were observed.

- (a) Consumable items amounting to Rs.952,160 purchased during the period 2006/2010 had been accounted for as fixed assets. The book value of this stock as at 31 December 2011 amounting to Rs.576,288 and action had not been taken even by the end of the year under review to rectify this matter or to write off from the books.

- (b) Even though the Museum Construction Project completed in the year 2008 and 15 other projects relating thereto had been completed, action had not been taken for the capitalization of the sum of Rs.50,166,931 shown in the Work-in-progress Account over a long period.
- (c) Even though seven deposit certificates of 07 day call deposits amounting to Rs.5,961,229 and 02 fixed deposit certificates valued at Rs.200,000 had been placed as Bank guarantees, it had not been disclosed in the financial statements.
- (d) The value of machinery belonging to the NERD Centre amounted to Rs.111,770,056, a machine with repaired value of Rs.1,517,633 only had been revalued. Even though there was no basis for revaluing of the machinery instead of revaluation by a committee, it had been revalued by the Head of the Division himself.
- (e) The recurrent expenditure of Rs.77,827 incurred on painting of the Technology Park building had been debited to the Buildings Account.

1:2:3 Accounts Receivable and Payable  
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The following observations are made.

- (a) The balance of the Trade and other Debtors Account as at 31 December 2011 amounted to Rs.11,403,421 and the balances old between 5 to 8 years amounted to Rs.5,542,695. In addition the balances old between 3 to 5 years and 1 to 3 years amounted to Rs.592,665 and Rs.618,261 respectively.
- (b) The trade creditor balance amounting to Rs.2,060,329 included a balance of Rs.128,730 older than 4 years.
- (c) The sum of Rs.5,130,260 receivable from the Hiriyala Economic Centre since the year 2004 and a sum of Rs.197,625 receivable from a private company had not been settled even by the end of the year under review.

- (d) Advances amounting to Rs.10,837,474 obtained by the Centre from its customers for various projects remained without being settled over a number of years and it was observed as due to the non-issue of invoices or non-implementation of projects. This balance included balances older than 05 years amounting to Rs.67,500, balances old between 3 to 5 years amounting to Rs.496,498 and balances older than 01 year amounting to Rs.141,426.
- (e) Even though a sum of Rs.807,818 had been allocated over a long period for the payment of gratuity to 24 employees who had resigned, action had not been taken to settle that amount or to write back to income.

1:2:4 Lack of Evidence for Audit

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The evidence indicated against the following items of account had not been furnished to audit.

Item	Value	Evidence not made available
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	Rs.	
Fixed Assets	444,965,739	Board of Survey Reports
Creditors	2,060,329	} Confirmation of Balance from the parties concerned.
Debtors	11,403,421	
Seven Day call Deposits	5,961,229	} Deposit Certificates
Fixed Deposits	200,000	

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions  
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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) Financial Regulation 570	Even though deposits not claimed for more than 02 years from the date of deposit can be written back to income, action had not been taken to write back to income refundable deposits amounting to Rs.32,800.
(b) Management Services Circular No. 39 of 26 May 2009 and the Public Enterprises Circular No. PED/12 of 02 June 2003 Paragraph 8.3.3	Even though the Centre had spent a sum of Rs.1,568,786 for the payment of incentive allowance in the year under review, the recommendation of the Salaries and cadre Commission and the approval of the Department of Management Services needed in accordance with the circulars referred to had not been obtained.
(c) Public Finance Circular No. 438(2)(a)(i)(ii),(iii) and (iv) of 13 November 2009 and Financial Regulations 756, 756(4) and 771(2)	Even though the Centre had assets valued at Rs.6,136,266 for disposal, action in terms of paragraph 2 had not been taken thereon.
(d) Public Enterprises Circular No. PED/25 of 29 June 2004 and the Public Finance Circular No. PF/PE/9 of 27 June 2006.	A sum of Rs.2,600,748 had been invested in fixed deposits without the approval of the appropriate Minister and the concurrence of the Minister of Finance.

1:2:6 Transactions not supported by Adequate Authority  
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The approval of the Board of Directors had not been obtained for the investment of a sum of Rs.64,809,474 deposited by the Customers with the Centre for the implementation of various projects, in seven day call deposits from the year 2004.

2. Financial Review

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2:1 Financial Results

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According to the financial statements presented, the working of the Centre for the year ended 31 December 2011 had resulted in a deficit of Rs.24,792,432 as compared with the corresponding deficit of Rs.6,249,543 for the preceding year. As such the deficit in the financial results for the year under review indicated an increase of Rs.18,542,889. The main reasons for this had been the increase of Rs.12 million in personal emoluments and the increase of the research and development expenditure by a sum of Rs.6 million.

3. Operating Review

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3:1 Performance

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The following observations are made.

(a) Civil Division

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- (i) According to the Action Plan for the year 2011, estimates for Rs.2,940,000 had been prepared for 12 projects expected to be implemented by the Civil Divisions and those projects had not been commenced in the year 2011.
- (ii) According to the Action Plan, the Civil Division was expected to earn a sum of Rs.8,800,000 from conducting skills training programmes and a sum of Rs.10,000,000 by the implementation of Low Cost Technology Housing Projects during the year under review. The expected income had not been received as those projects had not been implemented.

(b) Technology Marketing Division -----	
Target -----	Non-achievement of Target -----
(i) Appointment of 80 House Planning Technicians Island-wide.	Planning Technicians had not been appointed.
(ii) Conduct of 06 Awareness Programmes at Vidatha Centres.	Awareness Programmes had not been conducted.
(iii) Conduct of 04 Training Programmes in Vidatha Centres.	Training Programmes had not been conducted.
(iv) Participate in 10 Vidatha Exhibitions.	Not participated at exhibitions.
(v) Conduct of Awareness Programmes for the officers of Vidatha Resources Centres.	Awareness Programmes had not been conducted.
(vi) Engineering Museum -----	
Providing Children’s Park Facilities Modernisation of Museum Lecture Hall.	Construction work not commenced Modernisation work not carried out.
Preparation of a Leaflet on Instructions for the Museum and opening of the Lecture Hall.	Leaflet of instruction had not been prepared. Opening had not taken place.
(c) Agricultural and Post Harvest Disposal Division -----	
Target -----	Non-achievement of Target -----
Improvement of Cold Room operated with biofuel.	The objective of the project had been the construction of a biofuel cold room for the preservation of food but it had not been commenced.

Use of biofuel for improvement of Mushroom Industry.

This project estimated at Rs.433,343 had not been commenced.

Introduction of a machine for application of fertilizers to coconut cultivations.

It was observed that the machine assembled at a cost of Rs.248,912 was not suitable for the purpose.

Popularizing one wheel tractor.

Even though a project to be popularized in the North and East had been implemented at a cost of Rs.474,308 it had not been successful.

Invention of a hydraulic machine for stressing steel rods for Precast Yards.

Even though the machine had been made at a cost of Rs.770,792 it had not been operated up to date.

(d) Renewable Energy Division  
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Target  
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Improvement of medium size heater operated with biofuel.

Creation and improvement of an incinerator for harmful waste and hospital waste.

Conversion of a diesel fired tea dryer kiln to a dendro fired operation. Creation of timber chipping machine.

Non-achievement of Target  
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Project had not been commenced.

Work on the project had not been commenced.

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3:2 Management Inefficiencies  
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The following observations are made.

(a) Operation of an electricity generating system using wood as fuel and connection of electricity generated to the National Grid  
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- (i) The objective of the project was to operate an electricity generation system using wood as fuel and connection of electricity generated to the National Grid with a view to minimizing the expenditure on electricity. The Project commenced in the year 2004 and implemented in two stages, had spent a sum of Rs.32,913,445 by 31 December 2011. Nevertheless, the objectives of the Project had not been achieved up to date.
- (ii) The electricity generation system had been repaired in the first quarter of the year under review and the electricity generated in November had been connected to the National Grid on test basis. The daily cost of generation of electricity amounting to Rs.24,480 was very high. Even though the Chairman of the Centre informed the audit that a income of Rs.33,300 could be earned per day by connecting the electricity generated to the National Grid, there was no agreement or other document confirming that position.
- (iii) The Value Added Tax amounting to Rs.29,358,044 which could have been obtained by the NERD Centre as a reimbursement from the Department of Inland Revenue remained without being obtained over a long period.

(b) Non-achievement of Expected Results from Projects

Project	Expenditure Incurred	Observations
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	Rs.	
Construction of a Biogas generator for the Elders' Home at Saliyapura.	1,898,088	The objective of generating biogas had not been achieved.
Minimizing damage caused in the transport of Plantains.	855,782	Even though the objective of the project was the production of a bag to minimize the damage caused in the transport of plantains, the bag produced for the purpose had not been popular among the farmers.

(c) Even though cost of 04 projects commenced in the years 2007 and 2010 amounting to Rs.2,637,857 had been written off from accounts as research expenditure, the expected results of the projects had not been achieved. Certain projects had been temporarily abandoned and had not been properly finalized.

(d) Even though 801 samples had been handed over to obtain the performance test certificate under paragraph 4.5 of the Sri Lanka Standards on the electric lamp Nos. 2002:1231 and 2002 :1225 issued after passing the life period of 2,000 hours, only 02 performance certificates had been issued.

(e) Even though 338 electric lamps had been handed over to the NERD Centre for testing the standards, performance reports had been issued for 14 only.

(f) Delays ranged from 4 to 19 months in the issue of invoices for samples of the Sri Lanka Standards Institute which is the main customer for obtaining test reports on electric lamps.

- (g) (i) A clerk recruited to the Centre on contract basis had been dismissed from service in the year 2007 due an act of indiscipline. According to the judgment of a case filed in the Labour Tribunal by that officer the Centre had to pay a sum of Rs.587,406 as compensation for the period from the date of dismissal to the date of reinstatement and to reinstate the officer. In this instance the contract period of the employee recruited on contract basis from 01 September 2000 up to the dismissal on 20 August 2007, had been extended continuously on annual basis. The Chairman informed that it was not due to a weaknesses in the management but the compensation had to be paid in accordance with the judgment.
- (ii) The Centre had recruited a Legal Consultant to provide legal advice to the institution and the Centre had to pay compensation despite the availability of a Legal Consultant. A sum of Rs.1,179,000 had been paid to the Legal Consultant for legal advice in addition to the case costs from the year 2004 to the end of the year under review. The payment made for the year under review itself amounted to Rs.153,000.
- (h) A sum of Rs.2,290,988 received in connection with the breach of bonds by an officer of the Centre had been invested in seven day call deposits. The attention had not been paid for the investment of that amount in fixed deposits Surplus Trust Fund which yield better benefits.
- (i) The balance of the Grants/ Honorariums Allocation Account as at 31 December 2011 amounted to Rs.1,083,995. The Research and Development Honorariums/ Grants awarded to the Engineers annually had not been awarded the years 2010 and 2011.
- (j) A sum of Rs.5,555 had been paid by the Centre as the clients had not paid the Withholding Tax.

3:3 Identified Losses  
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The following matters were observed

- (a) An employee of the Centre had filed a case against the Centre due to an error made by the administration and a sum of Rs.587,406 had to be paid in the year under review as compensation to that employee. Action had not been taken to fix the responsibility on the officers responsible in this connection.
- (b) An examination of the commercial projects completed in the year under review revealed that the Centre had incurred a loss of Rs.440,165 in the implementation of 07 projects. Expenditure exceeding the income from the projects had been incurred.
- (c) The Chairman informed that the overpayment of Rs.57,176 made in the payment of salaries converted according to the conversion of salaries under DMS/30 in the year 2006 will be recovered in installments.

3:4 Uneconomic Transactions  
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The following matters were observed.

- (a) A contract valued at Rs.5,370,965 had been entered into with the Ministry of Technology and Research in the year 2010 for the construction of the Vidatha Centre at Kopay. The construction work had been abandoned after spending a sum of Rs.448,343 on the project.
- (b) Even though a training programme had been conducted in the year under review at a cost of Rs.110,100 for the introduction of Systems Certificates (ISO-9001) to the Centre, the ISO-9001 Certificate had not been obtained. As such that expenditure was observed in audit as an uneconomic expenditure.

- (c) Even though the work on 14 projects costing Rs.11,283,085 commenced in the years 2008, 2009 and 2010 had been completed in the year under review, the final reports on the projects had not been submitted. Successful results had not been achieved from certain projects and steps had been taken to commence those failed projects again as new projects and it was observed in audit that was as an inappropriate action.

3:5 Idle and Underutilised Assets  
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Out of the general stocks as at 31 December 2011, the non-moving stocks representing 40 per cent valued at Rs.5,815,981 and damaged stocks valued at Rs.320,285 had been idling in the stores over a period exceeding 07 years.

3:6 Release of Resources of the Centre to other Government Institutions  
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The following matters were observed.

- (a) It had been agreed to utilize the labour and overhead expenses of the NERD Centre for the construction of a Vidatha Centre in the Karaveddi area for the Ministry of Technology and Research and the estimated expenditure amounted to Rs.3,194,626. The estimate for the traveling expenses and subsistence allowances of the officers and labourers amounted to Rs.930,450 whereas the actual expenditure incurred amounted to Rs.1,957,358 and that represented an increase of 110 per cent of the estimated amount.
- (b) The agreement entered into with the Ministry did not include the expenditure to be borne by the NERD Centre.

3:7 Human Resources Management  
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Even though engineering research is the main objective of the Centre, 38 posts approved for the execution of that activity remain vacant.

Post	Approved Cadre	Actual Cadre	Vacancies
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Research Students	05	03	02
Chief Research Engineers	13	08	05
Senior Research Engineers	16	01	15
Research Engineers	21	15	06
Curator - Technology Posts	01	--	01
- Museum	01	--	01
- Maintenance	01	-	01
- Factory	01	-	01
Technical Officers	05	02	03
Technical Assistant	15	12	<u>03</u>
			<u>38</u>

4. Accountability and Good Governance  
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4:1 Internal Audit  
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The following observations were made.

- (a) According to paragraph 07 of the Management Audit Circular No. DMA /2009(i) dated 09 June 2009, the Annual Audit Plan prepared should cover the activities of all areas such as the annual estimates, Action Plan, and the budget proposals, but it had not been so prepared.
- (b) According to paragraph 07 of the above circular, in addition to the financial audit, the Internal Audit should pay special attention to systems analysis, performance analysis and the special investigations in order to ensure an effective performance by the institution but attention had not been paid to those areas.

4:2 Internal control  
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All activities under Project ELE/COM/59/11 of the NERD Centre such as, receipt of imported motor vehicle battery samples, preparation of work orders, invoicing, testing preparation of reports, issue of reports and the return of samples had been done by one officer. As such action had not been taken to maximise the income received and to prevent any probable errors.

4:3 Audit and Management Committee  
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The following matters were observed.

- (i) Even though the Audit Committee should meet at least once in 03 months in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, only 03 meetings had been held in the year under review.
- (ii) According to paragraph 5 of the Public Enterprises Circular No. 55 of 14 December 2010, it is essential to obtain the services of a representative of the Auditor General' Department. Nevertheless such representative had not been invited to participate in the meetings.

5. Systems and Controls  
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Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the Chairman of the Centre from time to time. Special attention is needed in respect of the following areas of control

- (a) Project Costing and Management
- (b) Debtors and Creditors