

## **National Research Council - 2013**

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The audit of financial statements of the National Research Council for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and the Gazette Extraordinary No. 1514/28 of 15 September 2007. 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**

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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**

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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 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 judgment, including the assessment of the 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 the 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**

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**2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the National Research Council as at 31 December 2013 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**

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**2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) The provision for the payment of audit fees for the years 2012 and 2013 had not been made in the accounts.
- (b) Instead of recording the advances of Rs.75,000 granted for the Presidential Awards Celebration as advances that had been included under the cash and cash equivalents.

**2.2.2 Accounts Receivable**

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Action had not been taken even up to the end of the year under review for the recovery of the sum of Rs.90,000 deposited for the building in which the Research Council office was maintained up to June 2012.

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

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Non-compliances with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations

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Non-compliance

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- (a) Establishments Code of the Democratic Socialist Republic of Sri Lanka
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Sections 12.5.4 and 13.3 of Chapter II

Even though an acting appointment should be made only as a temporary measure until a permanent appointment is made, contrary to that, acting appointments for the post of Secretary to National Research Council and the post of Accountant had been made from the years 1999 and 2003 respectively.

Even though the allowances payable for an acting appointment should not exceed 25 per cent of the basic salary, contrary to that a sum of Rs.303,756 had been paid for acting in the post of Secretary in the year under review and the preceding year while Rs.90,900 had been paid for acting in the post of Accountant in the year under review.

- (b) Treasury Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained for the fixed assets totaling Rs.201,871,941.

- (c) Public Enterprises Circular No. PED/12 of 02 June 2003

- (i) Section 9.2

Action had not been taken to register the Organization Chart of the Council in the Department of Public Enterprises.

- (ii) Section 9.3.1

Even though a period exceeding 06 years had elapsed since the establishment of the Research Council action had not been taken for preparation of a formal Scheme of Recruitment and obtain the concurrence of the Department of Public Enterprises.

- (d) Letter No. DMS/1765 dated 17 August 2012 of the Director General of the Department of Management Services

Instead of taking action to fill the vacancies in the staff, 06 officers had been recruited on the assignment basis without obtaining approval and allowances amounting to Rs.911,390 had been paid in respect of the year under review.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the operations of the Research Council for the year ended 31 December 2013 had been a deficit of Rs.2,357,760 as against the surplus of Rs.443,022 for the preceding year, thus indicating a deterioration of Rs.2,800,782 in the financial results. The increase of expenditure on personnel by a sum of Rs.2,000,000 had been the main reason for the deterioration of financial results.

#### **3.2 Analytical Financial Review**

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Money deposited in Bank Accounts for research grants represented 99 per cent of the current assets.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

- (a) The National Research Council had made grants amounting to Rs.919,000,000 for 247 researches during the period from the year 2006 to the year 2013. Out of that Science Citation Indexes for 39 research grants and other International Publications for 47 researches had been published. Nineteen researches had been abandoned while the patent rights only for 74 researches had been obtained.
- (b) The final results of the researches conducted by spending Treasury provisions during a period of 03 years had been limited to the publication of researches. It was observed that there is no value addition to the money given for researches due to the non-use of the results of researches and the failure to take action for obtaining patent rights.
- (c) According to the Annual Action Plan, provision of Rs.273,000,000 had been made for 60 researches in the year under review. Nevertheless, only a sum of Rs.217,000,000 had been given for 41 researches.
- (d) Even though plans had been made for the grant of awards for 350 researches published in the Science Citation Index in the year under review, no awards whatsoever had been granted in the year.
- (e) Even though plans had been made for the registration of 60 candidates for postgraduate degrees only 36 candidates for degrees had been registered.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) The National Research Council which remained as a Research Institute under the Presidential Secretariats prior to the year 2007, had been established under the Presidential Special Provisions in terms of the Notification published in the Gazette Extraordinary No. 1514/28 of 15 September 2007. According to the Presidential Special Provisions, the Council had been established until the establishment of a Research Council by a Statute. Nevertheless, action had not been taken even by the end of the year 2013 to enact a Statute and establish the Research Council as a statutory body.
- (b) According to clause 06 of the Project Agreement, the fixed assets / equipment purchased from the Treasury provisions for completed projects should be either taken over by the National Research Council or be transferred to the relevant research institution or transferred to any other research project. Nevertheless, action in terms of the agreements had not been taken for the transfer of the assets and equipment valued at Rs.13,233,927 relating to 06 projects completed during the years 2008 to 2011. In addition, the assets valued at Rs.100,819,092 transferred in the year under review had not been formally transferred.
- (c) Even though periods of 01 year to 04 years had elapsed after the submission of 11 research reports since the completion of project periods, the evaluations had not been done even by 31 December 2013.
- (d) Even though plans had been made and applications called for holding the Presidential Awards Ceremony in respect of the years 2007, 2008 and 2009 in the year 2011, the Awards Ceremony had not been conducted. Even though provisions in this connection amounting to Rs.1,550,000 , Rs.2,730,000 and Rs.1,000,000 had been made in the Action Plans for the years 2011, 2012 and 2013 respectively, the Awards Ceremony had been held only in the year 2014.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) In the grant of Treasury provisions for the researches selected by the National Research Council, the total provisions required for a period of about 03 years is credited to the Current Accounts relating to the projects at the commencement of the research work. An examination of the balances of the Bank Current Accounts of several preceding years revealed that large amounts of money had been idling in the Current Accounts as shown below.

Year	Provisions Credited to Current Accounts	Balance at the year end in the Bank Current Accounts
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	Rs.	Rs.
2011	200,000,000	268,113,399
2012	220,000,000	346,873,287
2013	217,000,000	396,340,514

- (b) It was observed during the course of examination of the Current Accounts that out of the provisions given to 18 projects completed in the year under review, a large sum of money remained without being spent. Certain projects had not been implemented and the related provisions remained idle for long periods in the Bank Accounts. Accordingly, it was observed in audit that a sum of Rs.23,736,730 had remained idle in the Bank Current Accounts for more than 03 years from the year 2009 to 2013. The management had not taken any action whatsoever in this connection.
- (c) The equipment and chemicals needed for the project during the project period of 03 years should be purchased without delay and the research work should be completed within the project period. Nevertheless, chemicals valued at Rs.217,785 had been purchased from the National Research Council Bank Account in the year 2013 for the Project 08-29 of which the Current Account had been closed down in the year 2012 on the completion of the project period.
- (d) In terms of clauses 8(1) and (11) of the Project agreement, the Bank Current Accounts of the abandoned and uncompleted projects should be closed down without delay and action should be taken to recover the balance money of those accounts without delay. Even though the research projects of 18 researchers who had obtained research grants totaling Rs.38,659,069 had stopped the projects halfway, action had not been taken promptly to close down those Bank Current Accounts and recover the money.
- (e) (i) Four agreements had been entered into with 04 private companies in the year under review 04 projects for the “Public and Private Sectors Partnership Programme” based on the contribution of 50 per cent each by the National Research Council and the Private Sector for the Research Sector. The Project period was 03 years and the contribution of the National Research Council for the 04 projects amounting to Rs.45,798,008 had been credited in one installment to a Current Account on 17 May 2013 the date of commencement of the projects. In view of the release of more than Rs.45 million in one installment instead of releasing provisions from time to time based on the progress of the projects, it was observed that Government money had been retained idle in Current Accounts.
- (ii) An examination of the Bank Current Accounts of the Projects revealed at a balance of Rs.41,948,125 in the Bank Accounts and other than the opening a letter of credit for the purchase of an equipment for a project

(Project No. 12 – 18) on 18 December 2013, no other activities relating to the 04 projects whatsoever had been done.

- (iii) Even though the relevant 04 private companies should have banked contributions totaling Rs.23,465,600 by 31 December 2013 in terms of the Project Agreements, only a sum of Rs.3,937,588 had been banked.
- (iv) Even though the private companies should have furnished six monthly progress reports to the National Research Council every six months in terms of Chapter II of the agreement, progress reports had not been furnished.
- (v) Out of the sum of Rs.78,370,921 received for the projects, a sum of Rs.32,572,913 had been utilized for other activities of the Research Council without being utilized for the objectives of the projects.

#### **4.4 Uneconomic Transactions**

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The following observations are made.

- (a) Even though the monthly salary for the post of Secretary to the Research Council approved by the Department of Management Services had been Rs.38,530 and instead of recruiting an officer for the post, an officer released from the Institute of Fundamental Studies had been deployed in the post of Secretary and had been paid monthly allowance of Rs.73,367. As such the Research Council had to spend an additional sum of Rs.243,860 in the year under review.
- (b) An equipment purchased for a research project had been returned in July 2009 to the institution from which it was purchased as it had become inoperative. The further amount receivable in that connection amounting to Rs.150,869 had been written off in the year under review without the approval of the Board of Governors. The Value Added Tax of Rs.159,000 paid on the purchase of the machine had been written off from the accounts in the preceding year.

#### **4.5 Expenditure Contrary to the Objectives**

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Even though the primary objective of the National Research Council in accordance with the Notification published in the Gazette Extraordinary No.1514/28 of 15 September 2007 is the improvement of research activities based on knowledge and science, the Council had granted a sum of Rs.1,250,000 in the year under review in respect of 02 occasions extraneous to the objective.

#### **4.6 Personnel Administration**

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The following observations are made.

- (a) Nine vacancies in the Executive and Non-Executive personnel existed as at 31 December 2013.
- (b) The post of Secretary which is the Senior Management and Executive post of the National Research Council and the post of Accountant had been vacant since the years 1999 and the year 2003 respectively and action had not been taken even by the end of the year under review to fill the vacancies.
- (c) Even though 05 officers had been recruited on the assignment and contract basis from the year 2006 for the approved staff of the Research Council and action had not been taken even by the end of the year under review to convert them permanent status.

#### **4.7 Failed Projects**

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After the evaluation of the Research Reports of 07 researches completed at a cost of Rs.15,682,293, those projects had been categorized as failed projects / unsatisfactory projects.

### **5. Accountability and Good Governance**

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#### **5.1 Deviation from the Procurement Guidelines**

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Four items of equipment valued at Rs.32,290,822 had been purchased in the year 2011 deviating from the Procurement Guidelines.

#### **5.2 Internal Audit**

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An Internal Audit Unit had not been established and the assistance of the Internal Audit Unit of the Line Ministry had not been obtained for the internal audit work.

#### **5.3 Examination of the Budget**

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The actual expenditure as at 31 December 2013 had exceeded the budgeted expenditure in the ranges of 13 per cent to 82 per cents, thus indicating that the budget had not been made use of as an effective instrument of management control.



**6. 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 Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Research Grants
- (b) Assets Management
- (c) Accounting
- (d) Budget
- (e) Project Management