

National Research Council - 2014

The audit of financial statements of the National Research Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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, Notification published in the Gazette Extraordinary No. 1514/28 dated 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 Managements 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 misstatements 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 the 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.

1.4 Establishment of National Research Council

The National Research Institute had been established by a Notification published in the Gazette Extraordinary No. 1514/28 dated 15 September 2007 under the President's Special Provisions. As mentioned in the Special Provisions, the evidence relating to actions taken to establish a National Research Council by a Statute had not been furnished to audit.

1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Research Council as at 31 December 2014 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 Accounting Deficiencies

The following observations are made.

- (a) A separate Grant Account had not been maintained in order to show the capital grants received from the Government and adjustments made thereto. The transactions connected thereto had been adjusted to the Accumulated Fund.
- (b) Adjustments totalling Rs.3,487,046 relating to prior periods had been adjusted to the Accumulated Fund in the year under review without restatement of comparative values presented for prior period and disclosed with the financial statements.
- (c) The amortization adjustments had not been made for the depreciation amounting to Rs.609,578 made in the preceding year for the office equipment purchased from the capital grants.

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

Non-compliances with the following Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules etc.**Non-Compliance**

- | Reference to Laws, Rules etc. | Non-Compliance |
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| ----- | ----- |
| (a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka, 371(2) (b) (c) | Even though the maximum Ad hoc sub-imprest that can be issued by an Accounting Officer to a subordinate officer in one instance should not exceed Rs.20,000 , ad hoc sub-imprests totalling Rs.1,724,300 had been granted contrary to that requirement in 27 instances. |
| (b) Gratuity Payment Act, No.12 of 1983 | Provision for gratuity had not been made for any of the employees of the Research Council. |
| (c) Public Enterprise Circular No. PED/12 dated 02 June 2003. | The acting officers could be appointed for the vacant posts for maximum of 3 months and appointments on acting basis should not be given for uncertain periods. However, the post of Accountant of the Research Council had been filled by appointing an acting officer and allowances had been paid for over 11 years since the year 2003. |
| (i) Sections 9.3.1 | |
| (ii) Sections 9.3.1 (vi) (vii) | Action had not been taken to prepare a formal Scheme of Recruitment and to forward for the approval of the Department of Public Enterprises though a period of over 6 years had elapsed since the establishment of the Research Council. |
| (d) Section 8.9.1 (a) of the National Procurement Guideline Circular dated 25 January 2006 | Even though equipments valued at Rs.30,999,100 had been purchased for 5 research Projects, a formal agreement had not been signed. |
| (e) Section 2.14.1 of Supplement 21 of Procurement Hand Book dated 23 February 2012 | Even though the open bid procedure should be applied for the purchases valued more than Rs.2,000,000, the shopping method had been applied for the purchase of 4 equipments totalling Rs.27,549,100 during the years 2012 and 2013. |

2.4 Transaction not support by an Adequate Authority

The following observations are made.

- (a) Sums totalling Rs.82,287,388 saved from the Projects abandoned during the year, had been utilized for new Research Projects without Treasury approval without taking action to transmit such money to the Treasury.
- (b) The Gas Chroma Graph valued at Rs.6,550,000 had been purchased for a Project, without proper approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the National Research Council for the year ended 31 December 2014 had resulted in a surplus of Rs.1,038,702 as against with the deficit of Rs.2,357,760 for the preceding year thus indicating an improvement of the financial result by Rs.3,396,462. Increase of Recurrent Grants by 50 per cent during the year under review as compared to the preceding year had been the main reason attributed to the improvement of the financial result.

3.2 Analytical Review

Ninety eight per cent of the Current Assets represented the money deposited in Bank Current Accounts on account of Research Grants. Since this situation had prevailed throughout the year, attention had not been paid for the effective management of the funds.

4. Operational Review

4.1 Performance

4.1.1 Physical Performance

- (a) A sum of Rs.1,155,000,000 had been granted by the Research Council for the period from 2006-2013 for 276 researches. Of those, 22 researches had been abandoned and 40 researches could not be completed during the stipulated period. Further, the evaluation of 07 final research reports had not been completed up to the date of audit.
- (b) Even though 37 completed researches for which final reports had been furnished and evaluated in the years 2013 and 2014 out of those, only 07 reports had been published in the Science Citation Index. It was further observed that local and foreign publications had not been made relating to 11 researches for which research grants totalling Rs.37,052,360 had been given.
- (c) Even though the Technology Transfers should be effected in the case of completed the research works conducted using the Treasury grants, in order to make improvements to the results, application and obtain the benefits. However, action had neither been taken up to the end of the year under review to apply nor transfer the research results relating 23 researches for which Treasury grants amounting to Rs.69,036,946 had been obtained.
- (d) The National Research Council which functions as the agent providing Treasury funds for research works on behalf of the Government, had not done any follow-up work on 76 completed researches.
- (e) After the evaluation of the Project Reports of 07 Research Projects for which Treasury provisions totalling Rs.23,627,572 had been granted had been shown as failed/ unsatisfactory projects.

- (f) Even though it had been planned according to the Annual Action Plan to grant a sum of Rs.100,000,000 to the “ Target Oriented Multi Subject Research Projects Award Programme” in the year under review, a sum of Rs.234,120,000 had been given to 3 Projects. Even though it had been planned to spend a sum of Rs.50,000,000 for the “Private Public Partnership Programme” during the year under review, a sum of Rs.10,109,000 only had been spent for one Project.

4.2 Management Inefficiencies

The assets and equipments purchased from the Treasury Provisions amounting to Rs.50,307,876 in the year under review had not been properly transferred on the completion of the projects institution which had been conducted after being completed the Projects.

4.3 Operating Inefficiencies

- (a) When granting the Treasury provisions for the selected research Projects by the National Research Council, the total provision for the period of 3 years had been credited to the respective current accounts under each Project at the time of commencement of Projects. However, an examination of the balances of the Bank Current Accounts of several preceding revealed that excessive amounts of money had been held idle regulatory those accounts.

Year	Provisions Credited to the Current Accounts	Current Account Balances as at the end of the year
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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
2014	236,034,583	454,696,778

- (b) Purchase of equipments valued at Rs.30,999,100 for 5 projects of 2 to 3 years duration had taken periods ranging from 3 to 11 months.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) Purchase of required chemical and equipment should be expedited within the 3 years of the project period and research activities should be completed within the relevant period. However, after the lapse of the 6 project period and after closing down of the Bank Current Accounts, an aggregate amount of Rs.1,196,070 had been paid to purchase chemicals from the Research Council Bank Account.
- (b) According to clause 06 of the Project Agreement, the fixed assets / equipment purchased for finalized projects from Treasury provisions should either be taken over by the National Research Council, or transfer to the relevant research institute or to

transfer to some other research project. Nevertheless, assets/ equipments costing to Rs.8,028,334 related to 4 Projects which had been completed their activities during the years 2009 to 2011 had been transferred in April 2015, after a lapse of a long period. Assets and equipments costing Rs.8,361,080 purchased for 04 projects had not been taken over. As such those assets could not be utilized effectively.

- (c) The Research Council had granted advances exceeding the requirements by Rs.1,328,600 in 19 instances and the unspent balances of the advances ranged between 13.5 per cent and 68.9 per cent.

4.5 Underutilization of Funds

The following observations are made.

- (a) An examination of Projects' Bank Current Accounts, revealed that the funds credited to the Projects' Bank Accounts had been saved due to non-implementation of Projects and non-utilization of the entire amount of funds. Accordingly, it was observed that the funds amounting to Rs.52,523,721 had been idling over a period exceeding 4 years from the year 2010 to 2014, without being utilized.
- (b) According to Annexe II of Section I of the Projects Agreement and the Research Project Guidelines, all assets and equipments required for the research Projects should be purchased within 06 months, after release of the provisions. Nevertheless, a sum of Rs.32,110,583 given to 16 Projects for acquisition of the assets had remained idle over periods ranging from 1 year to 4 years without being utilized.
- (c) The Provisions amounting to Rs.3,336,500 had been made for a Project in October 2013 and agreements had been entered into for the purchase of the required chemicals for the Projects from those provisions. However, the Treasury provisions remained idle due to non-purchasing of chemicals up to the end of the year under review.
- (d) A sum of Rs.6,162,870 had been given to a Project in October 2013 and the provisions had been idling even by end of the year under review without being utilized.

4.6 Abandoned Projects

The following observations are made.

(a) Isolation and Characterization of Nitrogen Fixing Bacteria Associated with Rice

- (i) The research Project was scheduled to be commenced and completed in October 2010 and October 2013 respectively. Even though the Provision amounting to Rs.3,684,500 had been credited to a Bank Current Account in October 2010, the Project had not been implemented.
- (ii) The assets purchased for the Project Rs.2,743,309 during the years 2011 and 2012 had been idling due to non-implementation of the project.

- (iii) Sums totalling Rs.490,454 idling in Project Current Accounts had been taken over by the Council on 28 April 2014 and the sum of Rs.450,737 spent on the Project was observed in audit as an uneconomic transaction.

(b) Screening and Treatment of Garment Factory

A sum of Rs.2,935,000 had been credited to a Current Account on 21 December 2012. None of the research activities had been carried out and the project period was scheduled to be ended by 31 December 2014. The Council had recovered a sum of Rs.2,919,250 on 31 December 2014 after leaving the Project funds idle in the Current Account over a period of 2 years.

(c) Space-Time Dynamics and Parameters of Growth of Toxic

This Project was scheduled to be commenced in August 2011 and completed in April 2014. A sum of Rs.4,825,000 had been banked in August 2011 as project funds. The objectives of the Project had not been achieved and the National Research Council had recovered a sum of Rs.2,846,372 after leaving the project funds idle in the Bank Account over a period of 03 years.

(d) Spatial Modeling of Elephant Movement for Identification of Elephant Corridors

This Project was scheduled to be commenced on 31 August 2012 and completed on 31 August 2014 and a sum of Rs.1,665,000 had been banked for the Project. The project had not been implemented and National Research Council had closed the Project Bank Account and recovered a sum of Rs.1,424,320 on 31 December 2014 after leaving the money idle over a period of 02 years.

(e) Comparative Analysis of Disinfection by Products Formation Mechanism with other Water Quality Parameters

- (i) This project was scheduled to be commenced in April 2013 and completed in April 2014. A sum of Rs.8,940,000 had been credited to a Current Account at the commencement of the Project. Even though agreements for the purchase of assets valued at Rs.6,008,717 had been entered into, none of the assets had been purchased even up to the end of the year under review.
- (ii) The Project was not implemented and the provision amounting to Rs.2,031,840 had been recovered by the National Research Council on 28 February 2014.

(f) Evaluation of the Clinical Features and Identification

The above Project was scheduled to be commenced on 29 October 2010 and completed on 29 October 2013. A sum of Rs.3,352,384 had been banked as project provisions in October 2010. A progress of the Project was not observed and the National Research Council had recovered a sum of Rs.2,482,803 on 31 December 2013 after leaving the money idle in the Bank Account over a period of 3 years.

(g) According to Clause 8 (i) and (ii) of the Project Agreement, the Bank Accounts of the abandoned and uncompleted Projects should be closed down immediately and balance money in the accounts should be immediately withdrawn. Although 04 Researchers who had obtained research grants amounting to Rs.15,794,759 had abandoned the projects halfway, action had not been taken to close down the Bank Accounts and recover the money.

(h) **PPP-12-34 Milk Preservation Research Project**

The proposed total cost estimate of the Project amounted to Rs.65,392,016 and the Research Council had entered into an agreement to finance a sum of Rs.32,696,008 out of that amount and the entire sum had been deposited at the Bank of Ceylon on 15 May 2013. A sum of Rs.200,000 had been banked by the private Sector. The Project had stalled halfway due to the disagreements between the two parties and a sum of Rs.32,696,008 had been lying in the Current Account without accruing any benefit.

4.7 Delayed Projects

The following observations are made.

- (a) Four Research Projects for which Treasury provisions amounting to Rs.19,203,130 had been provided and scheduled to be completed during the year 2013 had not been completed even up to the end of the year under review.
- (b) Three projects in the year 2013 and one project in the year 2014 had been commenced under the Private – Public Sectors Partnership Programme with a view to obtaining the Contribution of the Private Programme with a view to obtaining the contribution of the Private Sector for the field of research. The projects had been commenced for a period of 3 years with the consensus of making contribution in equal measure by the Research Council and the Private Companies to meet the costs of the projects. Even though a total sum of Rs.18,814,000 should have been banked as at 31 December 2014 by the 04 Companies as their contribution in terms of the Project Agreements, a sum of Rs.4,607,046 only had been banked.
- (i) A sum of Rs.23,211,000 had been deposited in the Bank Current Accounts as the Treasury Contribution for the 04 projects. As the National Research Council had released the provisions without taking into account the progress of the projects, it was observed that a sum of Rs.16,262,471 had been idling in the Bank Current Accounts as at 31 December of the year under review without being utilized despite the elapse of 02 years since the commencement of the projects.
- (iii) According to the Circular No. 380 dated 19 January 2000 of the Department of Public Enterprises, the management and service fees should be paid from the income earned by the ongoing projects. But one research project had not earned income. The agreements based on the circular had been entered into for the payment of a sum of Rs.4,230,250 as the management fees of 04 projects

while a sum of Rs.677,802 had been paid during the year under review from the Bank Accounts of the Private Companies.

- (iv) In terms of Chapter II of the Project Agreements, the Research Partners should, submit Progress Reports on the progress of the researches only in every 06 months. Even though 03 Progress Reports should have been submitted by the end of the year under review, only 02 reports had been received during the year and the evaluation of only, one report had been finalized.

4.8 Staff Administration

The following observations are made.

- (a) There were 05 vacancies in the executive and non-executive posts as at 31 December 2014 and the posts of the Secretary, the Higher Senior Management and Chief Executive post of the National Research Council had been vacant since the year 1999 and the post of Accountant had been vacant since the year 2003.
- (b) A formal Scheme of Recruitment for the recruitment of the staff of the National Research Council had not been prepared and approval obtained. Recruitment had not been done in a transparent manner by publishing the vacancies in the newspapers.
- (c) The officers had been recruited on assignment and contract basis to the approved cadre of the Research Council since the year 2006 and action had not been taken to confirm their service up to the end of the year under review.

5. Accountability and Good Governance

5.1 Action Plan

Even though the manner in which the physical and financial targets to be achieved the objectives of the Research Council by utilizing the Treasury funds should be indicated in the Action Plan, the Physical targets had not been included in the Action Plan.

5.2 Internal Audit

The following observations are made.

- (a) An internal audit division had not been established in the Research Council.
- (b) Even though 06 Audit and Management Committee meetings had been held during the year under review, the internal or external audit reports had not been discussed at the meetings.

5.3 Procurement Plan

A Procurement Plan had not been prepared for the year under review and the assets totalling Rs.82,052,869 had been purchased during the year.

5.4 Budgetary Control

Variances in the actual expenditure ranging from 32 per cent to 137 per cent exceeding the budgeted expenditure had been shown as at 31 December 2014. Thus, it was observed that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses 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 following areas of control.

- (a) Awarding of Research Grants
- (b) Assets Management
- (c) Project Management
- (d) Accounting