

## **National Research Council of Sri Lanka – 2017**

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The audit of financial statements of the National Research Council of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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**

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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 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.

#### **1.4 Basis for Qualified Opinion**

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for 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 of Sri Lanka as at 31 December 2017 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) Three equipment amounted to Rs. 2,448,971 acquired for the projects but not the payments made had not been taken in to accounts as fixed assets in the year under review and 05 equipment amounted to Rs. 2,521,362 not acquired but payments made in the year under review had been brought to accounts as fixed assets.
- (b) Forty five returned cheques totalled to Rs. 136,000 had been credited to the relevant expenditure account in the year under review.

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

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Although the advances obtained should be settled just after the completion of the activity in terms of the Public Finance Circular No. 03/ 2015 of 14 July 2015, a period from 20 days to 287 days had lapsed for the settlement of advances obtained in 07 instances totalled to Rs. 581,000 in the year under review. Similarly, the imprests provided for 06 Research Projects in the years 2015 and 2016 amounted to Rs. 125,578 had not been settled even by the 31 December 2017.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Council for the year under review had been a surplus of Rs. 1,084,732 as compared with the corresponding surplus of Rs. 571,740 for the preceding year thus indicating an improvement in the financial result by Rs. 512,992 in the year under review as compared with the preceding year. Even though supplies and consumables had increased by Rs. 3,487,406 as compared with the preceding year, the increase in recurrent grant by Rs. 4,302,111 had mainly attributed to the above increase.

Even though a deficit had been seen in the financial result of the Council in the year 2013 a surplus in financial result had been shown even by the year under review from the year 2014. Nevertheless, after taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution amounted to Rs. 33,450,089 in the year 2013 had continuously improved up to Rs. 56,780,182 by the year 2017.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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Even though the Individual Research Projects, Target Oriented Multidisciplinary Research Projects and Private-Public Partnership Research Projects are being implemented by the Research Council mainly, the provisions made for the each of Research Projects had not been shown separately in the Action Plan prepared for the year under review.

##### **4.1.2 Activities and Review**

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The following observations are made.

- (a) Even though facilitating for the development of a research base for contributing to the national needs is an objective of the Research Council in terms of Section 03 (b) of the National Research Council Act, while evaluating the final result of the "Investigator Driven Research" projects the ability of publishing a paper in Science Citation Index (SCI) is being considered as the success determining criteria of that and the Research Council does not express an opinion or give a recommendation in that connection by drawing attention regarding the outcome of the research, its impact and practical usage.

- (b) The Final Reports Evaluations of 45 projects of “ Investigator Driven Research” with a grant value of Rs. 171,915,712 had been carried out in the years 2016 and 2017 and it had been mentioned that the projects were completed successfully according to the Evaluation Reports of 21 Research Projects with a grant value of Rs. 88,386,921 out of that. Nevertheless, a judgement had not been given regarding the improvement of a good or a process by improving the research by conducting an evaluation with regard to the possibility of applying the results of those researches to national needs. Similarly, Out of these Research Projects the Patent had been obtained for only one Research Project with a grant value of Rs. 5,323,000.
- (c) Out of the on going Research Projects by the 31 December in the year under review, it was observed that the financial progress of 32 Research Projects which were given a provision amounted to Rs. 110,233,227 in the years 2014, 2015 and 2016 exists in between 7 per cent and 50 per cent.
- (d) Even though the Final Report should be furnished within 03 months from the completion of the Project in terms of the General Rules and Regulations No. 21 of Guidelines for the Research Projects, the Research Reports relating to 11 Research Projects with a grant value of Rs. 29,419,455 completed in the years 2016 and 2017 had not received even by the date of audit in July 2018. The delayed period of that was in between 03 months to 19 months.
- (e) The Evaluation Reports related to the Final Report of a Research Project with a grant value of Rs. 2,635,000 commenced on 31 August 2012 and completed on 30 August 2015 had been handed over on 25 February 2017. It had been mentioned that the Research was “satisfactory” as per the Evaluation Report. Nevertheless, it had failed to achieve 03 objectives out of 05 expected objectives mentioned in the Project Proposal, even though more than 2 years period had lapsed after completion of the Project.
- (f) The Research Project commenced in the year 2013 at a cost of Rs. 11,583,792 with a private company to improve the resin of agarwood plants as suitable for commercialization and establish plant nurseries had been successfully completed by the December 2017. The Research Council had spent a sum of Rs. 5,687,500 for this Project. Although it was expected to create direct and indirect job opportunities, earn an income through the export, it had failed to obtain the necessary approval from the Department of Wildlife Conservation for the exportation of the parts of the agarwood plant even by the date of audit in July 2018. Therefore it had not been able impossible to achieve the expected objectives of the Project.
- (g) The Research Council had commenced a Research Project for an estimated value Rs. 20,218,000 in the year 2014 together with a private company for the identification of the impact for the minimization of kidney infection through the reduction of fluoride level and the concentration in the drinking water and the domestic water in a selected Grama Niladhari Division in the Vavuniya District. Scientific Examination of the ability of avoiding and minimizing the kidney infectious conditions had been included through supplying water with lower fluoride level and concentration the whole Grama Niladhari Division through positioning a water filter as the main objectives of this Project Proposal. Following observations are made in this regard.

- (i) Even though a water purifier had been purchased in the month of August 2014 by incurring Rs. 2,403,925 or 24 per cent out of a sum of Rs. 10,109,000 which was the contribution of the Research Council for the whole project, a place for positioning this equipment had not been identified properly before purchasing the equipment. Even though it was positioned in a private land owner's land in the month of August that purify equipment had been removed from that place in the month of May because of the land owner had requested his land. As a result of that, the purified water had been taken from alternative places for the continuation of the project activities.
- (ii) This equipment had been sold for Rs. 78,000 in the month of March 2018 assessed for Rs. 300,000. As a result of not commencing the Project after conducting a feasibility study, the purchase of the equipment was observed as an uneconomic transaction. Further it could not be able to fulfill the positioning of a water purifier which was a main objective of the Project.
- (iii) The project period had ended on 11 August 2017 as per the Project agreement and even though an Analysis Report regarding the Project should be handed over to the Research Council before 03 months lapsed, the Final Project Report had not been handed over to the Council even by the date of audit in July 2018.

#### **4.2 Management Activities**

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The following observations are made.

- (a) The total provision relating to the Researches is being credited to a current account under the each project at the time of commencement instead of providing provisions from time to time by examining the progress of the Researches when providing the provisions for the research projects by the Research Council. Out of the grants so credited to the accounts amounted to Rs. 897,277,751 relating to 155 projects commenced during the period from 2013 to 2017, a sum of Rs. 522,205,060 had been in idle in the current accounts as at 31 December in the year under review.
- (b) Even though 42 months to 06 months had elapsed since the final reports of 55 Research Projects which were completed during the period from 2008 to 2017 with a grant value of Rs. 223,136,633 had been furnished as at the date of audit in July 2018, the evaluations of Research Projects had not been carried out. Due to the delays in the evaluations as such, the practical importance of the outcomes of the Researches could have been minimized.

## **5. Sustainable Development**

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### **5.1 Sustainable Development Objectives and Achieving Goals**

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Every public institution should act in compliance with the United Nations Sustainable “Agenda” for the year 2030 for the Sustainable Development and the National Research Council of Sri Lanka had been aware as to how to take measures relating to the activities under purview of their scope relating to the year under review. The following observations are made in that connection.

- (a) The objectives such as promotion of sustainable agriculture, promotion of healthy and well-being in every age , promotion of sustainable industrialization, sustainable consumption and confirmation of production and sustainable use of marine resources had been identified by the National Research Council as the objectives which should be achieved as per the scope.

Since the objective of promoting of a sustainable industrialization is relevant to the scope of the Research Council directly out of those objectives even though it could be identified that the encouragement of innovations and increasing the number of engaged in the research and development activities and increasing the expenditure for the research and development in the public and the private sector as main targets under that and the number of Researchers available for a million of the population, the percentage of the public - private partnership Research projects , the number of innovations forming annually and the number of commercialized, the number of Patents obtained, the number of national and international publications conducted and the number of problems occurred as national where as remedies applied through the researches as indicators for the measuring the achievements based on those targets had not been so identified.

- (b) Even though the Research Council had identified the goals and the targets concerning its scope, the indicators relating to that had not been clearly identified. The indicator identified with regard to the objective of “ Promoting the Sustainable Industrialization” was the value of the grants or the percentage provided by the each sector. Though that was accurate as the final indicator of measuring the progress of achieving the goals, while confirming the optimum utilization of government grants relating to the national needs, actions had not been taken to identify the problems at present in the Sectors identified, accurately determine what the problems which need prime solutions are and to identify the important indicators relating to each Sectors for that in collaborate with the organizations such as Ministry of Health, Ministry of Agriculture and the Department of Census and Statistical .

- (c) Since the development of a research base contributing to the national needs is a main objective of the Research Council in addition to the above mentioned Sustainable Development Goals the ability of indirectly contributing for the “ Obtaining water and sanitation facilities for all and ensure the sustainable management of them” had not been identified. Therefore, actions had not been taken to identify the goals relating to that , based data, milestones whereas the Goals accessible as well as the indicators exist for measuring the progress.

- (d) Although it is essential to have an accurate database for measuring the correct performance ( based on indicators ) of any activity, the Council had not drawn attention on the facts such as making financial provisions, determination of a trained employee and fulfilling of enough physical facilities to generate an accurate data base for measuring the achievement of Sustainable Development Goals.

## 6. Accountability and Good Governance

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### 6.1 Procurement and Contract Procedure

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The following observations are made.

- (a) Since a plan should be prepared for carrying out the purchasing of equipment to confirm the completion of the Research Projects efficiently and during the expected period, even though the a procurement plan / time frame should be obtained from the Researcher consisting basic components of a procurement procedure such as type of procurement, method of procurement, preparation of bid documents and time taken for approval, time taken for calling quotations , Evaluations of Technical Committee, required time period for the approval of the Procurement Committee when obtaining the Research Project Proposals, it had not been functioned in that manner.
- (b) Equipment amounted to Rs. 73,461,671 had been purchased during the year under review for 52 Research Projects and since the awarding grants for those purchases had been done during the period from the year 2014 to the year 2016 , it was observed that if the procurement was properly planned there would be a possibility to purchase without delay.

## 7. 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.

<b>Area of Systems and Controls</b>	<b>Observations</b>
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(a) Management of Research Projects	(i) Not obtaining the progress reports on time and taking a long time to do evaluations.  (ii) Even though the Researcher is made aware of the evaluators' comments in respect of the progress reports, non-availability of a methodology to obtain responses immediately with regard to that .

- (iii) The Research Institute which represents the Researcher does not engage with the evaluation of the project .
  - (iv) While evaluating of the progress of the “Investigation Driven Research Projects” only the progress reports provided by the Researchers are evaluated and not reviewed the progress by examining physically.
  - (v) Non- availability of a methodology to get confirmed of the commencement of the research just after providing the funds.
  - (vi) Not Obtaining a statement as there were no any personal interests to the evaluators in respect of the research or the researcher.
- (b) Procurement Management
- (i) Non- expression of a statement by the members of the Procurement Committees and the Technical Evaluation Committees regarding the confidentiality, impartiality and absence of personal interests.
  - (ii) Not maintaining a Register for Attendance for the bidders at the bid openings.
- (c) Fixed Assets Control
- (i) Not issuing the Good Received Notes in respect of the purchasing of fixed assets.
  - (ii) Delays exists in recording purchased assets in to the Register of Fixed Assets and avoiding recording certain assets taken into books , not including all the required information .
  - (iii) Non- reconciliation of Register of Fixed Assets and the entries in the Ledger Accounts and non-supervision by a supervising officer.
- (d) Petty cash Expenditure Control
- Not approved the Registers of Petty Cash Expended by an Authorized Officer .