

National Engineering Research and Development Centre of Sri Lanka – 2017

The audit of Financial statements of the National Engineering Research and Development Centre 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 02 and sub section 01 of the state Industrial corporations Act, No. 49 of 1957 and in terms of the notification published in the Gazette Extraordinary No. 124/6 of 14 August 1974. My comments and observations which I consider should be published with the Annual Report of the centre in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

The 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 the 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Centre’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 Centre’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 Engineering Research and Development Centre of Sri Lanka as at 31 December 2017 and its financial performance for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Amounting to Rs. 359,248 had been incurred by the centre on the advice of the Ministry as fee for releasing from the port, 6 equipment for cleaning drinking water received by the Government of Japan as a gift to a private institution and, it had been accounted as a promoting research expenditure Instead of accounted as receivable money.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by July 2018, the date of audit, to recover the retention money amounting to Rs. 482,122 of 04 commercial projects completed and hand over by the centre of which the defect liability period had expired.
- (b) Receivable amounting to Rs. 970,622 had not been recovered even by October 2018, remaining from 24 months to 18 months period in relevant of 04 projects had completed by the institution.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Centre for the year ended 31 December of the year under review had been a deficit of Rs. 5,129,045 as compared with the corresponding deficit of Rs. 4,182,265 for the preceding year, thus the deficit of the year under review had increased by Rs. 946,780 compared with the preceding year. Despite increase in the administration expenditure by Rs.19,539,409, increase in the other expenditure by Rs. 6,338,438, increase in the depreciation by Rs. 2,875,302 and decrease in other income by Rs. 4,241,487, the increase in the Government Grants by Rs. 28,014,850 and differed income by Rs. 3,985,412 in the year under review as compared with the preceding year had mainly attributed to the increase in the deficit.

In the analysis of financial results of the year under review and 04 preceding years, Even though the deficit amounting to Rs. 28,114,860 of the year 2013 had decreased up to Rs. 2,238,655 by the year 2015, it had increased up to Rs. 5,129,045 by the year 2017. Nevertheless, in considering the employees remuneration and the depreciation on non-current assets, the contribution of the Centre amounting to Rs. 191,433,742 in the year 2013 had increased continuously up to Rs. 272,949,075 by the year under review.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

The following observations are made.

- (a) Awareness programme and 03 training programme for low cost construction technology had been held in the year under review and 253 had been participated for that. Although targeted to transfer this technology for 14 persons, only 03 persons had been concentrated to received relevant technology. According to this targeted objectives had not been achieved from Awareness programmes.
- (b) Although it had been targeted to submit 55 licenses from 21 technologies introduced by the centre in the year under review, it could submitted only 23 income from 9 technologies. 08 technologies among them over period from 2008- 2012 introduced by the centre and technologies introduced over period from 2013-2017 had not been popular.
- (c) Amounting to Rs. 14,992,213 cost incurred for technology and 20 technologies equipments had been introduced by the centre for period 2013-2017. But it had been technology transferred only 02 technologies cost of Rs. 312,102 as at 31 December in the year under review. It had not been socialized non of introduced other technologies out of 18 as at 31 December in the year under review.
- (d) Although it had been targeted to renewals 100 licenses in the year review, 46 licenses had been renewed. It was observed that unable to issuing new licenses and renewals for target level due to lack of interest of enterprise about technology that expected to introduce. The centre had not been focused ensuring trust among public about technologies of centre, take action to prevention out dated introduced technologies, expand advertising.
- (e) Although the centre introduced 20 technologies during the period 2013-2017, it was observed that only 04 technologies had been for patent.
- (f) A project to produce a machine that aquatic plant removal in tanks for the ministry of fisheries and animal production of the southern provincial council had been commenced on 21 June 2016 and it had been planned to finalize by 09 September 2016. The ministry had been requested that to take a action speed up research work to produce the machine. However date extended 3 times it had not been completed to produce machine for 31 December 2017. Cost of Rs. 368,364 had been incurred for the project.

- (g) A project to produce automatic yogurt filling and sealing machine had been scheduled to be started on 01 February 2017 and expected to completed by 31 December 2017 and is estimated cost of Rs. 560,000. Project period had been extended up to 28 February 2018 due to unable to complete within relevant period. Even though the amounting to Rs. 576,247 cost incurred as at date of audit July 2018 this project had not been completed.
- (h) A project to produce a high quality oil extraction machine using coconut powder had been started in the year under review and the centre was responsible according to an imported machine from Korea, the model was developed, tested, improved and finally, produce such 4 machines. The model machine and one more machine at a cost of Rs. 2,240,104 although it had been identified that problems with the temperature control system, raw material does not come out from inside reliable, It had not been suitable remedies. Although, the Project had been to produce 4 machines, it had not been arrived expected objectives due to the production of one machine.

4.2 Management Activities

The following observations are made.

- (a) Two projects costing of Rs. 313,572 completed in the year 2016 had been failed due to identify shortcomings in the research stage and it had not been focus to successful the project using appropriate technology for avoid that shortcomings.
- (b) It was observed that the project conducted by the centre had not been completed in the expected time period in most of the time. Although it was planned to complete 20 projects within 2 months to 24 months started in the 2014-2016 period according to the sample audit testing. But it had been extended days the period from 6 months to 31 months due to failure to complete within the relevant period. The project completion had been delayed due to planning shortcoming, no formal agreement with external parties, and the disagreement between the both parties in the continued the project.
- (c) A project to manufacture a machine for testing the textile industry for the handloom industry had been started on 08 December 2015 and as a first stage, a machine worth Rs. 840,950 had been manufactured it had been submitted to the Department of Industry on 23 December 2016. Although it was reported to the centre by department of industry at the date of audit in July 2018 at six occasion in respect of issues of the machine from time to time and the machine had not been enable to implementation. Although it was expected to upgrade this machine of ii stage in terms of agreement, it had not been achieved.
- (d) A project for the construction of a new crematorium with high technologies at a cost Rs. 5,690,000 was estimated, had been scheduled to started on 05 February 2016 and expected to complete by 30 March 2018 and the project period had been extend to 30 September 2018. Even though a sum of Rs. 4,766,748 had been spend for that as at that date but project had not been completed.

- (e) Two projects had been commenced in 2014 collaboration with department of Agriculture Development and Agrarian Services department to control the landing salt water in the canal of waggal modara in Galle and rice research institute in Bentara and it had been expected to complete as at December 2014. A sum of Rs.218,108 had been spent for two projects to as at date of audit in July 2018 but they had not completed. Project work delayed due to lack of disagreements between the two parties, not entered in to formal agreements.

4.3 Identified losses

A loss amounting to Rs. 2,771,188 had been occurred from 10 commercial projects which had completed in the period of 2015-2017, on the reason of expenditure in cure more than the revenue.

5 Sustainable Development

5.1 Approaching the Sustainable Development Goals

- (a) In terms of the “vision 2030 Agenda” of United Nations, regarding Sustainable Development Goals, Every Government institute should approach it self, and the institute aware of the way should be implement regarding activities under the scope of the institute for the year under review. But the Institute had been identified sustainable Development Goals under the scope of the institute.
- (b) Although aware of the above, it had not been possible to identify the achievement of sustainable development goals and targets for achieving these targets and indications for reaching targets. As well as it had not been identified relevant financial allocations to build an accurate data base for measure reach the targets, the need for skilled workers or the physical facilities.

6. Accountability and Good Governance

6.1 Procurement and Contract Procedure

The following observations are made.

- (a) Although a detailed procurement plan should be prepared indicating time for each phase of the procurement process according to 4.2.1 (c) in terms of Government procurement Guide Line, that had not been done in that manner.
- (b) Although the centre had introduced low cost construction techniques, a contract of rehabilitation of front office building had been awarded to a external contractor at contract value of Rs. 7,868,607.

7. Systems and Control

Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the chairman of centre from time to time. Special attention is needed in respect of the following areas of system and controls.

Areas of systems and control

Observations

- | Areas of systems and control | Observations |
|-------------------------------------|--|
| (a) Staff Management | Delays in holding efficiency bar examinations. |
| (b) Procurement Management | <ul style="list-style-type: none">(i) obtaining performance guarantees after receiving the goods at the centre(ii) It had not been received recommendations as proper function of goods prior to approving payments,(iii) Technical Evaluation Committee Reports had been issued without dates
(iv) There were instances goods purchased which had not been include in the procurement plan(v) There were a big variations between the estimated cost and the actual cost(vi) There were instances to supply of goods with a long period after placing of orders(vii) There were occasions when all members had not signed the opening Bid Committee Reports |
| (c) Recruitment and promotion | <ul style="list-style-type: none">(i) Although Treasury approval had been received for fill the vacancies but action had not been taken to done recruitments
(ii) There were instances all officers were not signed on the interview board documents |
| (d) Project management | <ul style="list-style-type: none">(i) In the instances of extended of project period there were instances not give reasons therefore
(ii) Before commencement of the projects there were instances not entered in to formal agreements |