

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka National Research Council (“Council”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Council is required to maintain proper books and records of all its income, expenditure, assets, and liabilities, to enable annual and periodic financial statements to be prepared of the Council.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records, and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law or other general or special directions issued by the governing body of the Council.
- Whether the Council has performed according to its powers, functions, and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently, and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	In preparing the cash flow statement, a cash outflow of Rs. 21,995,626 had been adjusted in less under operational activities, and a cash inflow of Rs. 48,220,000 had been adjusted in less under investment activities. Furthermore, in preparing the council's cash flow statement, only the balances in the main cash book had been considered and the total balance of Rs. 68,108,055, transferred to current accounts for research projects as of December 31 of the year under review, had not been considered.	It has been noted that the preparation of the cash flow statement has been done as indicated by the audit from 2024 onwards.	The cash flow statement should be prepared accurately, including all cash receipts and all cash payments of the institute.
(b)	At the end of the year under review, 60 research projects initiated through ministry grants, with a total value of Rs. 246,532,425, were ongoing and incomplete and future benefits from those researches were identified as development value and not presented through financial statements as Working Progress and due to the fact	Since the future economic benefits from research cannot be reliably identified, it is appropriate to treat the expenditure as an expense at the time it is incurred, so they are debited to the statement of financial performance. Also that the same method has	The financial performance of ongoing projects should be disclosed through the financial statements.

that the entire expenditure was written off through the statement of financial performance, the current status of those long-term research projects compared to the expenditure which had been incurred so far had not been revealed in the financial statements.

been followed in the previous accounting years as well.

1.6 Non-Compliance with Laws, Regulations and Management Decisions etc.

With Reference to Laws, Rules, Regulations etc.	Non-Compliance	Management Comment	Recomendation
Financial Regulation of 137 of the Financial Regulations Code of the Democratic Socialist Republic of Sri Lanka	Although the payment for the purchased goods should be approved after verification of the Goods Receipt Note (GRN), the Rs. 50,166,237 had been sanctioned payments only on a note applied by the researcher on the approval of the Board of Management.	Procurement activities for projects granted by the Sri Lanka National Research Council have been carried out in accordance with the Research Guidelines established by the Council, with due approval from the Council. Also, the procurement decisions taken by the research institutes will be approved after being examined by the procurement committee of the National Research Council.	Payments should be approved after obtaining relevant confirmations for goods purchased in accordance with the provisions of the Financial Regulations.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 3,998,779, and the corresponding deficit in the preceding year amounted to Rs. 172,111. Therefore, an improvement amounting to Rs. 4,170,889 of the financial result was observed. The reasons for the improvement are an increase in other income by Rs. 11,488,253 and a decrease in research and development expenses by Rs. 51,998,881, though recurrent revenue had been decreased to Rs. 56,681,722.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Five research projects with an expenditure of Rs.14,588,238, scheduled for completion in the years 2020 and 2022 had been accomplished by the National Research Council in the year under review. Although the project guidelines stipulate that final reports should be submitted to the council within three months of the project completion, the reports for the completed research projects had not been submitted by the audit date of 25 June 2024.</p>	<p>It is informed that the main researcher's head of the institution about the delays and non-receipt of final reports in the research, indicating that this may have adverse effects on the institution's future eligibility for project grants from the National Research Council and it is noted that main researcher who do not submit final reports will be blacklisted from receiving project grants from the National Research Council again.</p>	<p>A system should be implemented to obtain final reports of the completed research projects on due date as mentioned in the research guidelines.</p>
<p>(b) Though a feasibility study should be conducted to assess the viability of implementing the project before initiating a research project, due to the lack of such assessments, three research projects, which had received a grant of Rs.11,241,250 from the treasury, were initiated but subsequently suspended without being implemented.</p>	<p>The suspension of these three researches was due to the factors such as, informing the absence of an official at the research institution to assume overall responsibility for the project, the main researcher's request for an extension to complete the project due to the lack of a research student, the funds allocated for purchases exceeded current market prices, and no expenses had been incurred since the project's initiation.</p>	<p>Projects should be implemented and actions should be taken to provide proper benefits to the country through research, after conducting a proper feasibility study in obtaining treasury grants for researches.</p>

- (c) Funds amounting to Rs.12,256,290 had been allocated by the ministry for five projects scheduled to initiate in the year 2022 and to conclude in year 2023, only Rs. 6,928,581 had been spent on these projects by the end of the year under review. Consequently, the projects had not been completed as planned, resulting in an underutilization of Rs.5,327,709 from the allocated funds.
- Acknowledging the necessity for more streamlining the existing procedures for guiding researchers to complete and finalize projects within the designated time frame.
- The necessary control methods should be introduced to implement the projects through a formal program in order to get maximum effectiveness of the money received for the research projects.