

National Engineering Research and Development Centre - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Engineering Research and Development Centre (“Centre”) 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 Centre 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 Centre’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 intend to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

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

As per sub section 16(1) of the National Audit Act No. 19 of 2018, the Centre 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 Centre.

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 scepticism 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 Centre'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 Centre'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 Centre 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 Centre, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Centre has complied with applicable written law, or other general or special directions issued by the governing body of the Centre;
- Whether the Centre has performed according to its powers, functions and duties; and
- Whether the resources of the Centre 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per paragraph 48 of Sri Lanka Public Sector Accounting Standards No. 01, although expenditure should not be offset against revenue except when required or permitted, the Centre had offset expenditure of Rs.90,785,732 against revenue.	Technical assignments will be debited as an expense to the commercial project expense accounts, while the value credited to the equipment usage income account will be presented as income sources without offsetting the expense account.	Financial statements should be prepared according to the Public Sector Accounting Standards of Sri Lanka.
(b) As per paragraphs 65 and 75 of Sri Lanka Public Sector Accounting Standard No. 07, the effective life and depreciation method of an asset should be reviewed at least at the end of each annual reporting period. If the expected conditions differ from the estimates, they should be accounted for as a change in an accounting estimate in accordance with Sri Lanka Public Sector Accounting Standard No. 03. However, fully depreciated assets at a cost of Rs.639,670,381 of Centre but did not reviewed the effective life or account for the difference in estimates had not been made.	Assets included in the final accounts of the Centre which are fully depreciated but still in a usable and effective level will be identified, re-reviewed and accounted for in the future.	Public Sector Accounting Standards of Sri Lanka should be followed when preparing the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
The sum of Rs.1,144,250 and the fixed asset received by the Centre in the year under review had not been accounted.	This invoice, dated 17 November 2023, had received in 2024. Action will be taken to prevent occurring such defects in the future.	Appropriate internal control systems should be established to ensure that accounts are prepared covering all expenses and purchases related to the year.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.12,166,999 and the corresponding surplus in the preceding year amounted to Rs.22,523,175. Therefore a deterioration amounting to Rs.34,690,174 of the financial result was observed. The reasons for the deterioration are mainly due to the decrease in recurring grants given by the government by Rs.52,927,327 and deferred income by Rs.68,722,801 and in compared to the decrease in depreciation by Rs.25,727,209.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Due to lack of sufficient human resources, the project for the multi-input remote data acquisition system with mobile application for data logging and control, as well as the research project for the development of a battery charger for battery charging applications the expenditure incurred was uneconomical, due to temporary stoppage of research projects.	The first project had to be temporarily stopped due to a lack of engineers with expertise in the relevant fields, had to use funds earned by the institute, giving priority to other research projects with higher commercial potential. Though a decision hasn't yet been made to restart the second project, the electronic components imported for Rs.582,446 for this purpose, can be used for other projects in the field of electronics and the knowledge and experience gained from it are currently being used for other projects.	A proper assessment of the effectiveness or feasibility study of a project should be conducted before spending money on it.

- (b) Although an expense of Rs.176,992 had been incurred for rental vehicles for month of July 2023, due to obtaining rental vehicles even when the Centre's own vehicles were not used for official purposes. The selection of rental vehicles for various commercial projects of the Centre is done by calling bids in the respective year. Rental vehicles have been used for various projects of the Centre from last December to February 2024. Thus, the amount of Rs.176,992 spent on rental vehicle expenses for the month of July 2023 is a general expense. Furthermore, the amounts related to these vehicles have been incurred by the relevant division which is responsible for the project. It is often not possible to use the vans available within the organization for long-distance service projects, because these vehicles are used for daily duties (short trips) and official transportation within the organization, and also because non-availability of drivers within the organization. Expenses should always be incurred effectively and efficiently.
- (c) Although the financial statements stated that the Centre earned an income of Rs.360,042,769 in the year under review, the income from operational activities was only Rs.57,959,681, while administrative, financial, and other expenses incurred were Rs.326,548,352. Accordingly, there was an actual deficit of Rs.268,588,671 from operational activities. Special attention is paid to keeping the administrative, financial, and other expenses of the NERD Centre at a minimum level, and compared to last year, the total expenses (including depreciation) have been significantly reduced. Further, although the profit earned from operations in 2023 was Rs.57,959,681, it is in a higher level compared to year 2022. Additionally, special attention has been given to increasing the revenue-generating projects of the Centre. Currently, a Business Development Division (BDC) has been established at the Centre to Expenses should always be incurred effectively and efficiently.

plan and implement income generation projects.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation	Management Comment	Recommendation
<p>Although a draft of the annual report should be presented along with the financial statements within 60 days after the close of the financial year, a draft of annual report has not been submitted as required by Section 6.6 of the Operations Manual for State-Owned Enterprises, of the circular issued by the Department of Public Enterprises under number 01/2021, dated November 16, 2021. Additionally, the annual report should be tabled in Parliament within 150 days after the close of the financial year; however, the annual report for the year 2022 had not been tabled by 15 May 2024, the audit dated, in accordance with that circular.</p>	<p>The draft of the Annual Report of 2022 has already been forwarded to the Line Ministry. The annual report of 2023 has been drafted, and after receiving the final Auditor General's report for 2023, necessary arrangements will be made to forward it to the Line Ministry.</p>	<p>Annual reports should be prepared promptly to ensure they are submitted on time to the relevant parties.</p>

4.2 Annual Action Plan

Audit Observation	Management Comment	Recommendation
<p>As of 31 December 2023, the overall target achievement percentage was only 60 percent, according to the action plan and performance report of the Center. Although the total value allocated for 04 major activities in the action plan is Rs. 60 million, the actual value spent was Rs.32.639 million. This represents only 54.4 percent of the total allocation.</p>	<p>Although a provision of Rs. 60 million has been allocated for the activities of the action plan in 2023, only Rs.7.6 million has been released from the treasury to the Centre. As a result, the Centre has to use its internal grants to implement the action plan and achieve the relevant progress.</p>	<p>The action plan should be prepared as realistic as possible and efforts should be made to adhere on it.</p>