

National Engineering Research and Development Centre – 2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka National Engineering Research and Development Centre had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Sri Lanka National Engineering Research and Development Centre as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Non-compliance with Sri Lanka Accounting Standards (SLAS)

The following non-compliance were observed.

Sri Lanka Accounting Standards

Non-compliance

(a) 09

Even though fixed deposits with maturity period exceeding 03 months should be shown as investments, fixed deposits of Rs. 623,500 and the interest of Rs.24,487 thereon reinvested had been shown under the cash and cash equipments.

(b) 12

According to a Court decision delivered after the balance sheet date Centre had to pay a sum of Rs.589,406. Nevertheless the disclosure and adjustment in that connection had not been made.

- (c) 16 Even though provision of Rs.56,883,940 had been made for the payment of employees' gratuity, that amount had not been invested.
- (d) 36 The information on two cases filed against the Centre by 02 employees had not been disclosed in the financial statements.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) An understatement of Rs.339,155 had been made in the computation of the provision for employees' gratuity.
- (b) Stock shortage amounting to Rs. 15,549 had not been brought to account.

1:2:3 Accounts Receivable and Payable

The following observations are made

- (a)(i) Out of the trade debtors and other balances receivable amounting to Rs.10,632,988, balances amounting to Rs.5,560,695 had been older than 05 years while the balances old between 03-05 years and 01-03 years amounted to Rs.215,013 and Rs.397,572 respectively. Action had not been taken for the recovery of those balances.
- (ii) The trade creditors balance of Rs.2,881,029 included balances amounting to Rs.296,099 older than 04 years while the balances old between 02-04 years and 01-02 years amounted to Rs.26,117 and Rs.234,093 respectively. Action had not been taken to settle those balances.
- (b) The Clients advances as at the balance sheet date amounting to Rs.7,359,827 included balances older than 04 years amounting to Rs.539,673 and the balances old between 02-04 years and 01-02 years amounted to Rs.458,195 and Rs.274,981 respectively remained without being settled.

- (c) The Value Added Tax amounting to Rs.25,387,601, that could be obtained as a reimbursement from the Department of Inland Revenue remained over a long period without being recovered.
- (d) An over payment of Rs. 145,915 make due to an erroneous salary conversion had not been recovered even up to the end of the year under review.
- (e) The debtors balance of Rs.10,084,581 and the creditors balance of Rs.2,826,437 shown in the Financial Statements had not been confirmed by the parties concerned. As such those could not be satisfactorily vouched or accepted in audit.

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions.	Non-compliance
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(a) Sections 14 of the Finance Act, No.38 of 1971	The Annual Reports for the years 2008 and 2009 had not been tabled in the Parliament.
(b) <u>Financial Regulations of the Government of Sri Lanka</u> Financial Regulation 271(2)(b)	Even though unpaid salaries should be credited to the surcharge account, or revenue or any other specified account after the elapse of 14 days, action in terms of the Financial Regulation had not been taken in connection with the unpaid salaries amounting to Rs.63,956.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the Financial Statements presented, the working of the Centre for the year ended 31 December 2010 had resulted in a deficit of Rs.3,902,794 as compared with the corresponding deficit of Rs.18,279,718 for the preceding year. The improvement of Rs.14,376,924 in the year under review as compared with the preceding year had been due to the increase in the total income by a sum of Rs.6 million and the decrease of research and development expenses by Rs.6 million and operating expenses by Rs.4 million.

2:2 Operating Review

2:2:1 Physical Performance

The following observations are made.

- (a) The total number of technical equipment introduced from the year 1983 to the year under review had been 43 and out of that the patents had been renewed only in respect of 18 equipment.
- (b) Forty three technical equipment designed during 17 years had been introduced to 897 small scale industrialists during that period and only 82 of those industrialists had renewed the licensees during the year under review.
- (c) Information on the researches of the Centre for 05 years is given below.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected Researches	28	28	23	23	24
Researches Completed	14	08	08	15	18
Researches abandoned	02	06	03	03	-
Researches Results Published	03	07	08	03	05
Researches in Use	07	07	05	09	04

- (d) Instances of failure to achieve the targeted objectives of the Action Plan for the year under review are given below.

	<u>Target</u>	<u>Actual Performance</u>
i.	Issue of 15 Licenses	No licenses issued
ii.	Establishment of 04 Vidatha Centers	Only 02 Centers had been established
iii	Discussions with external parties	Two discussions had been held

2.2.2 Management Inefficiencies

The following observations are made.

- (a) According to the Project Agreement on the Project on use of firewood instead of diesel for Tea Drying Machine, the direct expenses involved in the commissioning and testing stage should be borne at equal percentages with the company concerned. Nevertheless, the total cost of the Project amounting to Rs.5,063,200 had been borne by the Sri Lanka National Engineering Research and Development Centre. The Project had not been completed on the due date and action had not been taken to secure the patent rights or to acquire the technology.
- (b) Fourteen researches costing 1,974,893 had been abandoned during the past 05 years.
- (c) Project No. RED/RES/114/07 commenced in the year 2007 had been abandoned as the Engineer of the Project had proceeded abroad. The sum of Rs.267,217 had been spent for that up to now.
- (d) The work on the 100 kilowatt electricity generation system worked on dendro-gas was scheduled for completion in the year 2002 and the expenditure incurred thereon by the end of the year under review amounted to Rs.22,106,616 and it had not been possible to achieve the objective of the Project up to date. Even though a sum of Rs.8,955,343 had been spent from the year 2004 to connect the electricity Generated by that to the national grid it had not been done.

2.2.3 Operating Inefficiencies

The following observations are made.

<u>Project</u>	<u>Observation</u>
(i) Dendro Project	The sum of Rs.2,660,000 received for the Project on 29 December 2003 had been returned to the Ministry on 16 September 2010 without being used over a period of 07 years.
(ii) ICAMS Project	The sum of Rs.2,639,232 received in the year 2003 for the implementation of the Project had been retained in the Bank Current Account and invested in fixed deposits in the year under review.
(iii) Supply of 10 kilowatts of Electricity	This Project scheduled for completion in the year 2006 had not been completed even by 06 June 2011 despite spending a sum of Rs.4,535,228 thereon.
(iv) Project for working of a two stroke Three Wheeler by an electric motor	This Project scheduled for completion in the year 2007 had not been completed even by 06 June 2011 despite spending a sum of Rs.1,221,364 thereon.

2.2.4 Idle and Underutilized Assets

The following observations are made.

- (i) Out of the total stock, non-moving stocks valued at Rs.3,973,122 (28 per cent) remained in the stores over a period exceeding 06 years.
- (ii) Furniture valued at Rs.69,720 purchased for a sales stall and goods valued at Rs.61,579 purchased for different divisions had been idling in the stores.

2.2.5 Identified Losses

The cost of 17 Projects completed in the year under review had exceeded the technology transfer income there from. Thus resulting in a loss of Rs.1,525,279.

2.2.6 Corporate Plan

The Corporate Plan for the years 2009 to 2011 prepared by the Centre had not been prepared in accordance with the provisions of Section 5.1.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

2.2.7 Meetings of the Audit and Management Committees

According to Sections 7.4.1 and 7.4.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Audit and Management Committees should meet at least 04 times in a year. Nevertheless, only one meeting had been held in the year under review.

3. Systems and Controls

Deficiencies in system and controls observed during the course of audit were brought to the notice of the Chairman of the Centre from time to time. Special attention is needed in respect of the following areas of control.

- (a) Project Costing and Management
- (b) Stock Control
- (c) Debtors and Creditors Control
- (d) Purchases
- (e) Stores Control