National Engineering Research and Development Centre of Sri Lanka - 2015

The audit of financial statements of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Sub-section 2 of Section 29 of the State Industrial Corporations Act, No. 49 of 1957. 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 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 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.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of National Engineering Research and Development Centre of Sri Lanka as at 31 December 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standards

In terms of Sri Lanka Public Sector Accounting Standard 01, balances settled within 12 months after the date of reporting, should be shown as current liabilities. Nevertheless, provision for gratuity amounting to Rs. 3,027,915 payable to 05 officers to be retired within a period of 12 months had been shown as non-current liabilities.

2.2.2 Accounting Deficiencies

The expenditure of Rs.6,234,580 incurred on the repairs to the CNC Milling machine during the preceding years and the year under review had been brought to account as recurrent expenditure while the machine had been revalued at Rs.10,000,000 during the year under review. As the capital expenditure had not been correctly identified, the revaluation surplus amounting to Rs.6,234,580 had been overstated while the effect on profits of preceding years had not been adjusted retrospectively.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The balance 15 trade debtor accounts as at the end of the year under review amounting to Rs.8,506,214 included debtors balances amounting to Rs.637,056 older than 05 years.

(b) Action had not been taken to recover the Value Added Tax amounting to Rs. 29,063,703 and Withholding Tax amounting to Rs. 239,092 recoverable from the Department of Inland Revenue for the period from the year 2005 to the year 2015.

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.6,923,687 as compared with the corresponding deficit of Rs.17,016,180 for the preceding year, thus the deficit of the year under review had decreased by Rs.10,092,493 as compared with the preceding year. Despite the increase in the administrative expenses and other expenditure by Rs.42,429,568 , increase in the Government grants for recurrent expenditure and other income by

Rs.35,327,235 and Rs.5,522,359 respectively and the decrease in adjustment of amortization by Rs.14,576,568 and the decrease in depreciation by Rs.26,208,349 in the year under review had mainly attributed to the decrease in the deficit.

In analyzing the financial results of the year under review and 04 preceding years, the deficit amounting to Rs.26,169,768 of the year 2011 had further increased up to Rs.28,114,860 by the year 2013 while it had decreased to Rs.6,923,687 by the year 2015. Nevertheless, in considering the employees remuneration and the depreciation on non-current assets, the contribution of Rs.167,403,814 in the year 2011 had increased continuously up to Rs.238,575,440 by the year 2015.

4. Operating Review

4.1 Performance

In terms of the Notification published in the Gazette Extraordinary No.124/6 of 14 August 1974, the main objectives of operating the Centre are as follows.

- To make provision for the formulation of institutional systems for the development of technology science
- To facilitate the combination of technology, engineering and research skills of various industries and institutions of public and private sector, undertaking research, development of training activities, and to offer continuous consultancy services.
- To ensure the adaptation and use of mechanism of technology in compliance with the resources of the country and objectives of national planning
- To examine direct and indirect mechanism of technology transfer and offer counsel to appropriate government and private institutions, and to promote the optimal exploitation of the country's human and material resources, particularly labour and raw material resources by promoting the growth of suitable technology
- To design, manufacture and test prototype machinery, pilot plants as demanded by industrial, commercial and other end users in an economical manner
- To make arrangements to monitor technical data and documentation on engineering designs and researches

The following observations were made in the examination carried out with regard to the achievement of above objectives.

(a) Action had not been taken to provide technology transfers in a manner to benefit the general public from the results of 16 out of the 24 new technologies and technological instruments introduced since the year 2010 up to the year under review.

(b) According to the Action Plan, although it had been planned by the Designing and Consultancy Services Division to earn an income of Rs. 6,500,000 by completing 120 orders for the supply various dye and mould designing services, a sum of Rs. 1,686,000 had been earned by supplying only 50 services. The Centre had informed that the targets could not be achieved as the CNC Milling machine had become inoperative, thus that machine had been repaired at a cost of Rs.6,234,580 during the years 2013 and 2014 and in the year under review. Nevertheless, the expected targets could not be achieved.

(c) Even though earning an income of Rs.4,500,000 had been targeted from the "Flap Gates" Project, only a sum of Rs.192,000 had been earned during the year under review and the targets had not been achieved.

(d) Even though 100 per cent progress was expected as at 31 December from 02 projects implemented in the year under review, the progress achieved had been 70 per cent and 52 per cent respectively.

(e) Even though 11 per cent progress was expected in the year under review in respect of the Development of Biomass Fuelled Temperature controllable Bakery Oven Project commenced in the preceding year, no activity whatsoever of the Project had been carried out in the year under review.

(f) Even though the 08 projects commenced in the preceding years were planned to be completed from the provision of Rs.5,938,000 during the year under review, the progress of completion by the end of the year under review had ranged from 3 per cent to 55 per cent.

(g) Even though 85 per cent physical progress had been expected to be achieved from the Design and Fabrication a Hyperbaric Oxygen Chamber for Hyperbaric Oxygen Therapy Project for which a provision of Rs.2,100,000 was made in the year under review, the actual progress achieved as at 31 December of the year under review had been only 32 per cent.

(h) Even though sums aggregating Rs.630,667 had been spent for 02 Research Projects up to the year 2014, the research had not been completed within the relevant period and those 02 Projects had become inactive by the year under review.

4.2 Contract Administration

The following observations are made.

(a) Establishment of Biogas Unit – Teaching Hospital, Kurunegala

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The following observations are made.

(i) Even though the Project for the Establishment of a Biogas Unit at the Teaching Hospital, Kurunegala was commenced in November 2014 at a cost of Rs.3,076,525(excluding tax) and expected to be completed by July 2015, the Project had been completed only in June 2016.

(ii) As the locations proposed to set up biogas digesters were changed, additional machinery and labour had to be used , thus resulting in an additional expenditure of Rs.175,800. As such, the total expenditure of the project amounted to Rs.4,826,832 causing a loss of Rs.1,750,307 from the project.

(b) As an agreement had not been reached with regard to the unit prices of the Project for the construction of Nurses Quarters Building of the Polonnaruwa Hospital as a project to be completed in the year 2013, a sum of Rs.7,185,063 shown as debtors since the year 2013 could not be recovered even by the end of the year under review. Further, sums totalling Rs.810,254 spent on the adjustment of construction deficiencies during the year 2014 and in the year under review could not be recovered causing a loss to the Centre.

4.3 Staff Administration

The following observations are made.

(a) Twenty six posts in the Executive Level had been vacant throughout the year under review and the Chairman informed that “the difficulty in retaining the officers was the main reason for these vacancies”.

(b) It was observed in audit that the vacancies existing in 89 posts out of 357 posts of the total approved cadre had affected the delay in completion of projects planned by the Centre.

5. Systems and Controls

Deficiencies in systems 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 entering into agreements between the two parties before the commencement of commercial projects and the taking decisions on projects with a clear consensus between Project Implementation Division and the Finance Division.