National Engineering Research and Development Centre of Sri Lanka - 2016

The audit of financial statements of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was furnished to the Chairman of the Centre on 13 July 2017.

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.

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 2016 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 Accounts Receivable

Action had not been taken even by 30 July 2017, the date of audit, to recover from relevant institutions, the retention money amounting to Rs.749, 110 of 03 commercial projects completed and handed over by the Centre, of which the defects liability period had expired.

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.5,744,897 as compared with the corresponding deficit of Rs.2,238,655 for the preceding year, thus the deficit of the year under review had increased by Rs.3,506,242 as compared with the preceding year. Despite the increase in the operating expenditure by Rs.36, 569,186 and the decrease in other income by Rs.2,657,516 , the increase in the Government grants and adjustment of amortization by Rs.21,070,777 and Rs.14,649,682 respectively in the year under review as compared with the preceding year had mainly attributed to the increase in the deficit.

In analyzing the financial results of the year under review and 04 preceding years, even though the deficit amounting to Rs.26,982,577 of the year 2012 had decreased up to Rs.2,238,655 by the year 2015 ,it had increased again up to Rs.5,744,897 by the year 2016. Nevertheless, in considering the employees remuneration and the depreciation on non-current assets, the contribution of the Centre amounting to Rs.179,994,271 in the year 2012 had increased continuously up to Rs.260,341,682 by the year under review.

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 provide for an institutional mechanism needed for the progressive development of indigenous technology by encouraging, recognizing and developing innovative and creative talent in Sri Lanka.

- To provide facilities to co-ordinate the technological, engineering and research capabilities of various public and private sector industries and institutions in a productive manner through co-operative endeavour.

- To ensure by adaption and adaptation the choice of technologies that would be consistent with the country's resource endowments national planning objectives.

- To examine direct and indirect mechanism of technology transfer and offer counsel to appropriate government and private institutions in Sri Lanka, when required to do so.

- 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 provide to continuous monitoring of technological data and documentation relating to engineering designs and research through the co-operation of international and national agencies.

- To offer sustained consultancy service to public and private sector enterprise and undertake research and promote training activities to broken the base of the country's engineering and industrial design and research capabilities.

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

(a) An income of Rs.502,000 from the issuance of 70 Technology Transfer Licenses and Rs.200,000 from the renewals of 137 licenses had been targeted in the year under review. Nevertheless, only an income of Rs.76,000 and Rs.89,000 had been earned from the issuance of 18 licenses and renewals of 60 licenses respectively due to the failure to complete certain technologies successfully and lack of demand for certain technologies.

(b) An income of Rs.68,000,000 from low cost constructions and providing 24 repair services by using the technology introduced by the Centre, Rs.6,160,000 from providing consultancy services for 22 building constructions and Rs.7,800,000 from the supply of goods/machines and concrete fittings had been targeted. Nevertheless, the targets achieved had been only an income of Rs.21,165,000 from 12 constructions, Rs.2,400,000 from the supply of machines and Rs.2,780,000 from 16 consultancy services due to the failure to attract the new constructions and to retain the engineers and technicians.

(c) Although it had been planned by the Designing and Consultancy Services Division to earn an income of Rs. 7,500,000 by completing 140 orders for the supply various mould designing services, only a sum of Rs. 1,967,000 had been earned by providing only 40 services without carrying out repairs on appropriate time.

(d) The physical progress of 12 projects to be completed in the year under review had ranged from 32 per cent to 90 per cent and the progress of three projects from which a progress of 55 per cent, 72 per cent and 78 per cent were expected as at the end of the year under review had been only 16 per cent, 55 per cent and 30 per cent respectively. The leaving of engineers and technicians of the Centre and failure to carry out researches with a proper agreement with external parties were the reasons therefor.

(e) The income from the commercial project of testing the standard of imported batteries had decreased by 79 per cent, 87 per cent and 60 per cent in the year 2014, 2015 and in the year under review respectively as compared with the years 2013. The number of orders from the Sri Lanka Standards Institute being the main client, had declined due to the lack of facilities for certain tests and delay of test reports. Even though an equipment for battery tests had been purchased at a cost of Rs.10,669,625 for this project in the year 2011 without entering in to an agreement with the main client institution for undertaking orders, that equipment had remained underutilized.

4.2 Management Activities

The following observations are made.

(a) Even though the commercial project for fixing the automated Flap Gate in the canal at Midigamuwa, Raththotuwila had been commenced in November 2013 and expected to be completed in February 2014, three years had elapsed up to July 2017 for the completion of project. Even though the estimated income and expenditure of the project amounted to Rs.227,000 and Rs.187,838 respectively, an actual expenditure of Rs.412,417 had to be incurred due to the non-preparation of estimates after a proper study.

(b) Even though the project for improvement of Bio Gas Unit at Cadet Centre at Rantembe had been commenced in August 2014 and expected to be completed in February 2015, it had not been completed even by July 2017 and further, the project remained inactive. No proper agreement in respect of incurring additional cost, had been entered into by the two parties and even though the estimated income and expenditure of the project amounted to Rs.104,995 and Rs.95,450 respectively, a cost of Rs.122,063 had been incurred by the end of the year under review.

4.3 Idle and Underutilized Assets

The following observations are made.

(a) One hundred and four stock items valued at Rs.404,404 in the main stores of the Centre had remained idle for 05 years.

(b) Five equipment valued at Rs.10,459,163 belonging to the Designing and Consultancy Services Division had remained idle since the year 2015 and 05 equipment valued at Rs.51,267,312 had remained underutilized in the year under review.

4.4 Identified Losses

An expenditure of Rs.7,929,857 had been incurred exceeding the income of Rs.5,643,133 received from 04 projects completed in the year under review , thus a of loss of Rs.2,286,724 had sustained due to the reasons such as, failure to repair the machines on appropriate time, inadequacy of estimates and failure to enter into proper agreements with external parties.

4.5 Delayed Projects

Four projects of which the estimated cost amounted to Rs.15,158,706 and to be completed in the year 2015 and within the year under review had not been completed even by the end of the year under review due to the failure to enter into proper agreements and the lack of concurrence with external parties and those projects remained inactive during the year under review. Further, action had not been taken to extend the due dates of completion or to complete those projects.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging between 15 per cent and 67 per cent were observed between the budgeted and actual values, thus observing that the budget had not been made use of as an effective instrument of management control.