

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Research Council for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 a summary of significant accounting policies, 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2020, 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 intend 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 Scope of Audit (Auditor's Responsibility on 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Noncompliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
According to Sri Lanka Public Sector Accounting Standards No. 20, the Council had not introduced an Accounting Policy on research and development expenditure and particulars of research and development expenditure amounting to Rs.72,822,765 incurred during the year under review had not been disclosed in the financial statements. Moreover, a summary of the expenditure incurred on each research was not submitted for audit.	Although these receipts received from the General Treasury as capital expenditure have been identified as income for that year, it is identified as the expenditure in relation to the year, in which the researcher has spent the money.	Necessary disclosures should be made in the financial statements.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Comments of the Management	Recommendation
(a) Property, Plant and Equipment	283,515,926	Fixed asset register and asset schedule	According to the financial statements submitted, the net value of property, plant and equipment was Rs.283,515.926 and it indicates a similar value as per the asset register submitted. The summary portion of the document, where the value, pointed out by the audit as incorrect, was stated has been prepared for the convenience of the institution and it is not a mandatory part of this document and some parts of it have not been updated.	Fixed asset register and asset schedules Should be properly maintained.

2. Financial Review

2.1 Financial Results

The operating result for the year under review amounted to a surplus of Rs. 3,295,913 and the corresponding surplus in the preceding year amounted to Rs. 3,073,226. Therefore, a certain improvement of the financial result amounting to Rs. 222,687 was observed.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The task of coordinating with the institutions that should be involved in the application of the outcomes obtained from research for the needs of the country had not been adequately accomplished and accordingly, the methodology required for the practical application of the outcomes of research had not been developed.	We are evaluating our research projects as a step to link research and national development. However, it takes a considerable time for a research output to become a practical application. Many NRC projects have coordination, but it takes time to become a practical solution.	There should be a proper coordination with the required government institutions to apply the outcomes of the research for the

needs of the country.

(b) Even though applications with high level of scientific skills and national importance were only selected after calling applications in research programmes, 15 researches had been unsuccessful and 7 more researches had been halted midway out of 271 researches valued at Rs. 47,328,845 carried out their research from 2011 to 2016 owing to shortcomings in the evaluation committees, lack of proper coordination between the researcher and sharing of information in the evaluation and in getting the progress of research and not carrying out the review.

Please note that the researcher himself is responsible for the success or failure of the research. If the research is unsuccessful, it is the responsibility of the National Research Council to take the necessary action.

Research Organizations and the management structure should be developed to carry out researches successfully.

(c) When the manner of incurring expenditure of the 10 projects, which had been under Targeted Multi-Purpose Grants (TO) was observed as per Bank Statements, it could be observed that the expenditure in the first year was an average of 10 per cent and 90 per cent had been saved during the first year without incurring out of the approximate total of the projects amounting to Rs. 463,619,984.

Our projects can be used as the guideline for us to function as per the budget plan provided at the initiation of their project for purchasing equipment related to them using Targeted Multi-Purpose Grants (TO). Moreover, some of the equipment used for these projects worth more than Rs.5 million and the procurement procedure takes a considerable time. In particular, there was no dedicated officer for the procurement work from 2014 to 2018 and the officers had to be allocated for that purpose as an additional task.

Provisions should be utilized to get the maximum use out of the provision received for projects.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) One research amounting to 49,500,000, out of four (04) researches worth Rs.193,086,099, which should have been started in the year 2014 and completed in 05 years with the objective of solving problems of national relevance in relation to the economic development, social welfare and environmental sustainability of the country as Targeted Multi-Purpose Mega projects (TO research), had not been finalized even by 8 of April 2021, the date of audit. The final reports of the other researches, of which the research activities had been finalized had not been submitted and evaluation of research had not been carried out.</p>	<p>The Council took steps to extend the project period of TO 14-18 project. TO 14-10 project has already been finalized and their final report is currently being supervised.</p>	<p>Efforts should be made to complete researches within the proper scheduled time and to submit the research reports properly.</p>
<p>(b) Investigator Driven (ID) research was carried out to increase knowledge and to develop country by identifying various needs existing in the country and carrying out research and finding solutions. Two hundred and twenty seven (227) researches had been finalized by publishing in the scientific journals and obtaining the opportunity to participate in the conferences, out of the 384 researches carried out from the year 2010 up to the year 2018 and action had not been taken to apply the research findings for the development of the country.</p>	<p>The purpose of the Investigator Driven Research Grant is to discover new knowledge. The new knowledge discovered should be disseminated to the scientific community as well as the general community. This is done through scientific publications and seminars.</p>	<p>Necessary methodology should be developed to use the research findings in the development of the country rather than publishing the research findings in the scientific journals.</p>

3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
<p>Approximately Rs. 50 million had been granted for one research under Targeted Multidisciplinary Grants (TO) and the entire amount had been deposited in the current account for a period of about 05</p>	<p>The General Treasury gives us money as an investment made for research in the country, and researchers spend that money on materials required for research</p>	<p>Funds received for research should be used with maximum efficiency and</p>

years. Thus, the amount deposited in current accounts at the end of the year under review was Rs. 463,619,984. Moreover, subsequent to selecting researches by the Council, grants amounting to Rs.180,464,683, received for 40 Investigator Driven researches for the period of 2017 to 2019 had been deposited in the current accounts opened for each research for incurring expenses of researches and thereafter, the initiation of researches had been delayed for a period of 03 months to 15 months and as a result, the said amounts remained non-performing in the current accounts.

within the first two years. The loss incurred by making a certain investment and waiting until such money is received can be even greater. Public finance is invested in researches by the budget of our Ministry and it is provided by the Ministry of Finance subsequent to obtaining the approval of the Parliament. Any grant cannot be used to incur expenses as soon as the research grants are awarded. Prior to incurring expenses, the Technical Evaluation Committee and the Bid Opening Committee should be appointed. Subsequently, the relevant preliminary approvals must be obtained to procure the goods or services. Then the procurement process should be carried out properly. Due to these reasons, incurring of expenditure from grants has been delayed. According to the guidelines of the National Research Council, the procurement process for the goods of the grants should be carried out within 9 months after providing grants and the relevant file should have been sent to the Research Council.

research should be initiated as soon as possible after receiving the grants.