

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 *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, the financial statements give a true and fair view of the financial position of the Centre as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 determines 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 Scope of the Audit

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 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 audit 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 audit report. However, future events or conditions may cause the Board 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 relating to the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Centre is 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.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 19,164,239 as compared to the corresponding deficit of Rs. 28,432,086 in the preceding year thus observing an improvement of Rs. 47,596,325 in the financial result. Increase in other revenue and decrease in administrative expenses compared with the preceding year, had mainly contributed to the said improvement in the financial result.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
The balance of trade and receivables at the end of last year was Rs.7,254,932 and in the year under review, the balance had grown to Rs.13,745,632. Due to the inefficiency of debt recovery, the	The average sales turnover of the center could not be reached in 2020 and it recorded a low value of Rs.39,848,813.23. Compared to that, the sales turnover increased to	Arrangements should be made to collect the money due.

receivable balances had increased by 89 percent compared to the previous year. Also, the center had not been able to recover any amount of Rs. 2,346,964 due from only 5 institutions on 31 December 2021 in the year under review.

Rs.72,848,817.58 in the year 2021. It is observed by analyzing the data of the last three years that the income of the year 2021 is in accordance with the average income value of the years that have been operating in the normal capacity.

3.2 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>It was observed that 18 senior level posts, 05 tertiary level posts, 06 secondary level posts and 48 primary level posts in the center were vacant as on 25th May 2022 which was the date of audit.</p>	<p>The main reasons for non-recruitment of vacancies in the Centre According to the Cabinet decision dated 21/1596/304/134 and 2021 /08 /31 related to the review of public expenditure, Ministry has informed that the recruitment of employees for the ministries and departments under it and other institutions has been postponed. Accordingly, recruitment for vacancies in the institute was stopped. Due to the severe covid 19 epidemic situation at the beginning of 2021, it was not possible to carry out recruitment activities for vacancies.</p>	<p>It should be ensured that the required number of employees is maintained so as not to hinder the activities of the organization.</p>