

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the National Research Council of Sri Lanka for the year ended 31 December 2022 comprising the statement of financial position at 31 December 2022 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 accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2022, 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 Opinion**

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 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 Auditor's Responsibilities for 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 Company'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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	<b>Reference to Laws, Rules Regulations etc. Section</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Paragraph 6.6 of the Operational Manual for State Owned Enterprises issued Public Enterprises No 01 /2021 dated 16 November 2021.	A copy of the draft annual report must be submitted to the Auditor General within sixty (60) days after the close of the financial year, but it had not been submitted even 16 <sup>th</sup> May 2023. which was the date of audit.	It will submit to the ministry after get the approval of the governing body in the future.	Action Should be taken in terms of circulars.
(b)	Procurement Guidelines dated 27 <sup>th</sup> January 2006 of Democratic Socialist Republic of Sri Lanka  4.1.1 Guideline	It is important to efficiently plan the entire procurement process to ensure that the project is completed on the	It was not possible to implement those guidelines as it was difficult to purchase assets due to the impact of Corvid and	Purchases should be made in accordance with the procurement planning guidelines.

time and to get the best market value for it. However, total assets worth of Rs.52,097,545 purchased for research by the council had not been done on the procurement plans.

the shortage of foreign exchange.

### 3.4 Guideline

Sealed quotations should be obtained not less than five registered suppliers and even though the council has an updated list of 17 registered suppliers, only one bid was received from five suppliers for the purchase of computer equipment worth Rs 5,490,800 and purchase of three laptops worth Rs.1,114,140 from only two bids received after inviting from ten suppliers.

Due to corvid impact and foreign exchange shortage, bought on one or two bids. The received prices were reasonable with the market prices and have been purchased subject to approval of the prices by the Technical Evaluation Committee.

Purchase should be made as per the provisions of the procurement guidelines.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.172,110 and the corresponding deficit in the preceding year amounted to Rs. 960,252. Therefore an improvement amounting to Rs. 788,142 of the financial result was observed. The reason for the improvement is increase of recurrent grant by Rs.2,640,000.

**3. Operational Review**  
**3.1 Management Inefficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The council had been spent Rs.34,536,475 of public funds for 11 Public Private Partnership research projects (PPP) which was completed from 2016 to 2021. Although Rs.4,634,712 worth net assets used for the 8 projects had been transferred to the research institutes the council had not been obtained any benefits such as royalty rights from the commercialization of those projects.</p>	<p>The responsibility of the commercialization is transferred to the private sector partner at the time of initiation of Public Private Partnership research projects. The results of some projects are intangible and indirectly used for the development of their own industry by the private partners. Due to inviting proposals without directly identifying the needs of the industry, scholars find private partners with effort from their own discretion and applying for planned projects. Assets were not transferred to the research institutes because of the research results are to be commercialization. Those equipment will be handed over with the approval of the committee in future.</p>	<p>Action should be taken to get benefits from the projects.</p>
<p>(b) The committees had been appointed to carry out the evaluation of research projects. While selecting the projects the committees should consider about the things such as avoiding opportunities to repeat the researches that has already been found by the Council or another similar body or in another country, checking whether the research result is an effective investment project compared to government funding, using the</p>	<p>Those matters have been included in the project proposal application and the researcher is bound to provide all the information about the research. The institution is also responsible, because of the application is forwarded through the head of the applicant's institution. The Proposal Evaluation Committee is also responsible. And the sub-committees and main committees appointed by</p>	<p>The factors to be taken into consideration while evaluating research projects should be properly considered and projects evaluations should be done.</p>

purchased assets after research was done, examining how the research results of the projects can be commercialized. Without considering those things, amount of Rs.2,281,832 and Rs.2,298,621 had been paid during the year under review and in the previous year respectively as Committee allowances.

the council are also bound to prevent duplication of research. Researches exemplified by observation are in the same field but the objectives are different.

- (c) During the year under review, 38 ID and TO projects were completed and equipment valued at Rs. 129,549,528 was handed over to the organizations that carried out the projects. But, in that regard, the appropriation of benefits to the council (patent rights, technology transfer rights, royalty rights, etc.) had not been accomplished.

All projects do not receive patent rights or transfer of technology or acquisition rights. Regarding IDG projects 2-3 years ago, the policy was to award projects for new knowledge generation and the benchmark of success was the publication of results indexed scientific journals and patent rights, technology transfers, etc. were considered as interim results. At present, patent rights, technology rights have been assigned, commercialization of innovations is more compared to previous years and discussions are being held with the private sector to commercialize the innovations of the TO project.

Efforts should be made to get benefits that can be obtained from the projects.

- (d) SP 21-02 special project to identify groups of microorganisms that accelerate decomposition of solid waste was started in July 2021 and Rs.8,135,195 was spent and for this problem a target-based multi-disciplinary project (TO 18-21) in the year 2018 Rs. 49,410,000 was started with a fund and this new

Although both these projects are under the subject of waste management, there are clear differences in the objectives.

Similar projects should not be repeated and before starting new projects in the same field, the success of the previous project should be checked.

project was started before its success was tested while the last phase was in operation.

- (e) The research project TO-14-04 has found a new larval strain to control dengue at a cost of Rs.46,087,658 to control dengue vectors, but the results of the project should be used until the dengue disease is completely eradicated in Sri Lanka by spreading the larvae in the country. Nothing had been done.

As the implementation of the project results is the responsibility of the relevant institution, all the findings of the project have been given to the Dengue Control Unit of the Ministry of Health, the Ministry of Environment and the Ministry of Education.

Projects should be planned and supervised so that the country can get benefit from the effectively used of research results.