

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Research Council (“Council”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 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, 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 2024, 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 Audit Scope

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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Although the comparative information for the previous year should be disclosed for all numerical information reported in the financial statements according to paragraph 53 of Sri Lanka Public Sector Accounting Standard No. 01, the Council had not disclosed comparative information in the Statement of Changes in Net Assets/Equity.	Actions will be taken to correct this in the future.	Comparative information for the previous year should be disclosed in accordance with Sri Lanka Public Sector Accounting Standards.
(b) Although comparative figures should be restated for the period in which the error occurred according to paragraph 47 of Sri Lanka Public Sector Accounting Standard No. 03, the Council had not restated comparative figures for the corrections of errors totaling Rs.1,804,837 for the previous period.	Actions will be taken to correct this in the future.	Comparative figures should be restated when correcting errors in accordance with Sri Lanka Public Sector Accounting Standards.
(c) All fixed assets were not shown separately as property, plant and equipment classes according to the	Actions will be taken to correct this in the future.	All fixed assets should be disclosed separately as classes

paragraph 50 of Sri Lanka Public Sector Accounting Standards No.07, but all fixed assets were divided into 03 categories and disclosed in a note as having a total cost value of Rs.378,525,874 and a total accumulated depreciation value of Rs.35,252,172.

(d) The gross carrying amount of 394 asset items with a cost of Rs.80,295,434 that have been fully depreciated but are still in use had not been disclosed in the financial statements in accordance with paragraph 92(b) of Sri Lanka Public Sector Accounting Standards No. 07.

(e) During the year under review, grants of Rs.57,140,146 received from the Treasury were not recognized as revenue from non-exchange transactions and were presented as net assets/equity in accordance with Sri Lanka Public Sector Accounting Standards No. 11.

according to the Sri Lanka Public Sector Accounting Standards.

These assets will be revalued in the future.

The gross carrying amount of assets that have been fully depreciated but are still in use should be disclosed in the financial statements in accordance with Sri Lanka Public Sector Accounting Standards.

In future, revenue will be calculated in accordance with Standard No. 11.

In preparing the financial statements, treasury grants should be recognized as revenue in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Although, the interest income relating to the proceeding year, out of the interest income of Rs.12,179,183 relating to the period from the date of deposit to the date of realized (from 2022 to 2024) for the fixed deposits amounting to Rs.116,000,000 realized during the year under	Actions will be taken to correct this in the future.	The correct interest value for the year and the value for the previous year should be identified and accounted for.

review, should have been adjusted to the accumulated fund, the entire amount of interest income had been adjusted to the Statement of Financial Performance.

Furthermore, since the interest income amounting to Rs.1,906,390 relating to a fixed deposit of Rs.30,489,000 had not been recognized in the financial statements, interest income for the year under review had been understated by the same amount.

<p>(b) Grants amounting to Rs.2,390,636 provided by private parties for Public Private Partnership programs during the period 2016 - 2019 had not been accounted for.</p>	<p>In the future, actions will be taken to account for grants provided by private parties for research projects.</p>	<p>All funds received for research from private parties should be properly accounted for.</p>
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1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>(a) Section 40 (1) of the National Audit Act, 2018</p>	<p>An internal auditor had not been appointed or an internal audit had not been conducted.</p>	<p>Since there is no Internal Auditor position among the approved staff cadre, the relevant documents to get the above position approved have been forwarded to the Department of Management Services on 05 March 2021.</p>	<p>Actions should be taken to conduct an internal audit in accordance with the National Audit Act No. 19 of 2018.</p>
<p>(b) Financial Regulation 756 of the Financial Regulations code of the Democratic</p>	<p>The stock survey reports for the years 2023 and 2024 had not been submitted to the Auditor General.</p>	<p>Action will be taken to correct this in the future.</p>	<p>As per financial regulations, stock surveys should be conducted annually and reports should be submitted.</p>

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(c) Paragraph 03 of the letter No. TO/CFM/20 23/Miscellaneous dated 30 December 2024 issued by the Treasury Operations Department

Although funds released by the Treasury should be returned to the Treasury before the end of the financial year if the intended activities have not been completed during the year or if any balance remains after the completion of the relevant activities, a sum of Rs.57,140,147 received during the year had been transferred to research accounts and retained.

The funds retained by the council for ID research projects and TO research projects have been awarded to researchers in 2025.

Treasury capital grants received for the year should be utilized within the year as planned.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.2,229,543 and the corresponding surplus in the preceding year amounted to Rs.3,998,778. Therefore an deterioration amounting to Rs.6,228,321 of the financial result was observed. Although research and development expenditure were increased by Rs.30,373,369, this decline was mainly due to a decrease in capital and recurring grants by Rs.4,782,929 and research and development receipts by Rs.31,983,057.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) A total sum of Rs.147,032,464 for general treasury grants had been provided for 25 projects commenced during the years 2015–2021 and although those respective research projects were to be	Actions will be taken to complete research projects within contractual stipulated time frame and to submit the final reports	In order to utilize Treasury grants effectively, steps should be taken to establish control mechanism to

completed within the period from 2016 to 2024, they had been delayed by a period ranging from 6 to 40 months beyond the scheduled time and were completed between 2019 and 2024.

Although the final report should be submitted within three months after the completion of the research according to the project guidelines, the submission of final reports had been delayed by a period ranging from 1 to 50 months, and the final reports had not been submitted by the date of 30 April 2025.

(b) Between 2015 and 2019, seven research projects were launched with a total Treasury Grant allocation of Rs.24,547,344, scheduled for completion during the period 2016–2022. However, by April 2025, three of these projects still remained unfinished, experiencing delays of four to seven years. The other four projects were completed in the year 2018 and 2024, following delays ranging from six to eighteen months.

(c) 08 research projects initiated in 2021, with a total treasury grant value of Rs.39,232,100, to be completed in 2023 and 2024, were not completed on due date and the delay in completing the research was between 04 and 22 months.

by the specified deadlines. Furthermore, steps will be taken to properly involve all relevant parties in accordance with applicable laws and regulations, and to strengthen the Council's directives, policies, and functions to ensure the proper execution of its power.

ensure that research projects are completed as planned and within the agreed stipulated time frame and that final reports are submitted on time.

Action will be taken to ensure that research projects are completed within the contractual stipulated time frames and that final reports are obtain by the specified deadlines. In addition, steps will be taken to properly involve all relevant parties in accordance with applicable laws and regulations, and to strengthen the institution's directives, policies, and functions to ensure proper execution of its power .

In order to utilize Treasury grants effectively, steps should be taken to ensure that research projects are completed as planned, within the contractual time frame, and that final reports are obtained on time.

Actions are being made to complete research projects within the contractual stipulated time frame and to obtain final reports on the due date, and appropriate action is being taken in accordance with the relevant rules.

In order to utilize Treasury grants effectively, control mechanisms should be maintained so that research projects are completed as planned and within the contractual time

	<p>(d) A total of Rs.12,256,290 had been allocated for five ministry priority-based research projects that commenced in 2022 and were scheduled for completion by September 2023. However, these projects were completed in 2024 and 2025, after delays ranging from 11 to 21 months. Final reports for two of these research projects had not yet been submitted by the date of audit on 22 April 2025. In addition, a balance amount of Rs.2,383,723 related to four projects remained idle in bank current accounts without being invested in any productive manner.</p>	<p>Actions will be taken to ensure that research projects are completed within the contractual stipulated time frame and that final reports are obtained by the specified deadlines and steps will be taken to properly involve all relevant parties in accordance with applicable laws and regulations, and to strengthen the Council's directives, policies, and functions to ensure the effective execution of its powers.</p>
<p>(f) Due to the absence of feasibility studies prior to the commencement of research projects, the non identification of feasibility of implementing those projects, 12 research projects scheduled to be completed between 2017 and 2024 and allocated a total Treasury provision of Rs.89,833,710, had not been implemented and had been subsequently abandoned. The related funds also remained idle in current bank accounts without being put to productive use.</p>	<p>Actions will be taken to ensure that research projects are completed within the contractual stipulated time frame and that final reports are obtained by the specified deadlines. Additionally, steps will be carried out to properly involve all relevant parties in accordance with applicable laws and regulations, and to strengthen the institution's directives, policies, and functions</p>	<p>In order to ensure the effective utilization of Treasury allocations, it is necessary to maintain proper legal and control mechanisms to ensure that research projects can be completed as planned and within the contractual time frames and final reports can be obtained by the specified deadlines. Appropriate actions should also be taken to invest the remaining project funds in a productive manner.</p> <p>Before commencing research projects, a feasibility study should be conducted to assess the viability of implementing the research activities.</p>

		<p>to ensure proper execution of its power.</p>
(g)	Although a Treasury allocation of Rs.57,140,146 was received in 2024 as an advance for research projects, by April 2025, none of these funds had been utilized for the intended activities and actions had been taken to approve an estimated provision of Rs.230,000,000 for the year 2025.	<p>Out of the capital expenditure, Rs.53,559,400 retained for capital projects has been retained for 10 ID projects and 1 TO project. This money has been provided to researchers in the year 2025.</p>
(h)	Although the Council's mandate is to provide and manage research funds for government scientific research institutions and universities in Sri Lanka and to ensure the completion of scientific research, it had not focused on directing researchers towards topics more beneficial to the country's development involving the relevant institutions and parties to ensure the linkage the outcomes of such research to economic development. Additionally, legal frameworks, the Council's policies, and its functions had not been expanded to enable effective execution of its powers.	<p>Actions have already begun to conduct an Impact Assessment and follow-up on each research project in order to apply new discoveries for the wellbeing of the people of the country.</p>
(i)	Although the research project titled TO-16-15 was initiated on 29 December 2016, and was scheduled to be completed by 28 April 2021, the project was completed after a delay period of 16 months, with a total expenditure of Rs.49,896,857 by April 2023. The objective of the project, which was to provide a sustainable solution to the drinking water needs of the arid region, to bring its results to the people, had not been successfully achieved.	<p>TO 16 -15 Research to provide a sustainable solution to the drinking water problem in the arid region by removing heavy metals and fluoride dissolved in water, began on 29 December 2016 and ended on 28 April 2023. This project has developed a model community water treatment plant as a</p>

solution to the water problem in the arid region. Initially, this power plant was planned to be built for the villagers and was established at a selected public location (Neththiyagama College, Mihintale) and development activities were planned. However, due to travel expenses and the COVID-19 situation, the water treatment plant was moved to the Kandy Institute of Basic Education and the development work was completed. Researchers are working with the National Water Supply and Drainage Board to replace this model water treatment plant at the Neththiyagama College in Mihintale.

(j) Although a project that commenced in 2014 and was scheduled for completion within five years was carried out at a cost of Rs.49,900,000 and was finally concluded on 31 December 2023, after a delay of nine years, the project was unable to make a sufficient contribution toward addressing the intended objective of meeting the country's need for antivenom medication for snakebite treatment.

This project was initiated based on a need in the Ministry of Health. Two meetings have been held at the Ministry of Science and Technology to commercialize this project in 2025 under the priority of the Minister of Science and Technology.

Actions should be taken to expand the legal structures, policies and roles of the Council to ensure that research results can be channeled into social and economic development.

3.2 Under -utilization of Funds

Audit Observation	Management Comment	Recommendation
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Funds of Rs.11,081,442 relating to 04 ID projects (Investigator Driven Projects), Rs.4,194,138 relating to 06 PPP (Public Private Partnership Program) projects and Rs.396,814 relating to the asbestos project, totaling Rs.15,672,394, had been kept idle in the current accounts for 02 years without being utilized for the relevant projects.

The strict attention will be paid to ensure that funds are utilized productively.

If project funds are utilized for the relevant projects and any balance remains, arrangements should be made to send those funds to the General Treasury.