

## **National Engineering Research and Development Centre – 2012**

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1. Financial statements

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1:1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, 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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1;2 Comments on Financial Statements

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1:2:1 Accounting Deficiencies

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In accounting for the two motor vehicles valued at Rs.18,000,000 received from the Department of National Budget in the year under review, the recurrent expenditure of Rs.309,000 incurred on insuring the motor vehicles had also been capitalized. As such the value of the motor vehicles and the depreciation had been overstated by sums of Rs.309,000 and Rs.35,550 respectively.

1:2:2 Accounts Receivable and Payable

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The following observations are made.

- (a) The trade and other debtors balance amounting to Rs.11,748,223 as at 31 December 2012 and included 04 balances totalling Rs.900,995 existing over periods between 04 to 05 years and 03 balances totalling Rs.873,680 existing over periods exceeding 05 years.
- (b) The debtors balance amounted to Rs.22,719,303 as at the end of the year under review and out of that debtors balances amounting to Rs.1,443,842 had been existing over a period exceeding 05 years. The recovery of the past due debtors balance appeared uncertain.

- (c) The Centre had failed to recover from the Department of Inland Revenue the recoverable Value Added Tax totalling Rs.29,159,692 existing since the year 2005.
- (d) Even though a sum of Rs.129,937 had been allocated over a long period for the payment of gratuity to 13 officers who had resigned from service, action had not been taken for the settlement of that money.
- (e) The balances of 36 trade creditors accounts as at 31 December 2012 totalled Rs.6,344,362. Out of that, the balances of 22 creditors accounts totalling Rs.3,983,599 had not been confirmed. The balances of two creditors accounts confirmed totalling Rs.475,390 did not agreed with the balances in the accounts.

1:2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Section 14 of the Finance At, No. 38 of 1971	The Annual Report for the year 2011 had not been tabled in Parliament.
(b) Public Finance Circular No. 438(2) of 13 November 2009 and Financial Regulations 756, 757 and 771	Action had not been taken on the stocks valued at Rs.6,238,467 that should be disposed of.
(c) Public Enterprises Circular No. PED/25 of 29 June 2004 and Public Finance Circular No. PF/PE/9 of 27 June 2006.	A sum of Rs.2,746,672 had been invested in fixed deposits without the approval of the relevant Minister and the Minister of Finance.

1:2:4 Transactions not supported by Adequate Authority  
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The following observations are made.

- (a) A sum of Rs.38,136,018 deposited in the Centre by clients for the implementation of different projects had been invested in seven day call deposits since the year 2004. A sum of Rs.23,500,000 had been so deposited in the year under review as well without the approval.
- (b) An Incentive Scheme for the payment of incentives from the profits of commercial projects had been introduced by the Centre in the year under review on a decision of the Board of Directors. Out of the profits of the commercial projects for the year under review, 40.38 per cent or Rs.3,189,885 had been spent on the payment of incentives. The approval of the Department of Management had not been obtained for the implementation of the Incentive Scheme.
- (c) Arrears of Rs.1,357,053 recoverable from debtors in the year under review had been written off from the accounts on a decision of the Board of Directors, without taking legal action for recovery. The approval of the Treasury for that had also not been obtained.

2. Financial Review  
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2:1 Financial Results  
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According to the financial statements presented, the working of the Centre for the year ended 31 December 2012 had resulted in a deficit of Rs.25,146,825 as compared with the corresponding deficit of Rs.26,704,768 for the preceding year. The improvement of Rs.1,557,943 for the year under review as compared with the preceding year had been due mainly to the increase of the Government grant by a sum of Rs.10.5 million.

3. Operating Review  
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3:1 Performance  
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The following observations are made.

- (a) Twenty one projects estimated at Rs.7,885,000 included in the Action Plan of the Centre for the year under review had not been implemented.
- (b) Out of 83 projects completed from the year 2004 to the year 2011, the research reports relating to 41 projects had not been furnished. There were 72 projects on which the technology transfer packages had not been prepared, 73 projects on which technology transfers had not been made, 55 projects of which the research results are not being used and 25 projects of which the technology is not being used.
- (c) Six Projects comments in the year under reviewed had been abandoned, and the expenditure incurred thereon amounted to Rs.1,059,760.

3:2 Management Inefficiencies  
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Action had not been taken for the disposal of 21 items recommended for disposal by the Board of Survey for the year 2011 as unusable damaged goods.

3:3 Budgetary Control  
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Variances between 80 per cent to 221 per cent were observed between the estimated costs included in the budget for the year under review and the actual costs, thus indicating that the budget had not been made use of as an effective instrument of management control.

3:4 Operating Inefficiencies  
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Even though the conduct and development of researches is the primary function of the Centre, a comparison of the research and development expenditure of several past years revealed that an amount less than 10 per cent of the total expenditure of the Centre had been used on research and development.

3:5 Uneconomic Transactions  
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The following observations are made.

- (a) A battery tester valued at Rs.11,949,980 had been purchased for carrying out the testing of motor vehicle batteries efficiently. An income of Rs.355,060 from battery testing had been received in the year 2011 while the net income received in the year under review amounted to Rs.7,125. That, as compared with the preceding year indicated a decrease of 98 per cent. A main client obtaining test reports from other institutions due to the delay in the issue of test reports had been the major impact for the decrease of income.
- (b) Even though the Centre had spent a sum of Rs.203,850 for obtaining the ISO-9001 Certification, that Certificate had not been obtained even by 31 December 2012.

3:6 Idle and Underutilised Assets  
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The following observations are made.

- (a) Even though 07 years had elapsed after the construction of the museum building revalued at Rs.50,166,848 in the year under review, it had not been used.
- (b) Even though goods valued at Rs.9,695,714 had been purchased for the Engineering Museum, action had not been taken to open the museum for display.
- (c) Stocks of 2,244 items of the main stores valued at Rs.6,238,467 remained idle and non-moving over periods exceeding 07 years. Fifty seven items of spare parts of tractor engines and motor vehicle spare parts valued at Rs.2,554,387 purchased in the years 1999 and 2000 remained idle in the stores over periods exceeding 13 years.
- (d) Even though a colour printer valued at Rs.1,850,000 had been purchased for the printing of the Annual Reports and notices of the Centre, 1,050 colour notices had been printed in the year 2011 through an external institution. Printing works had not been executed in the year 2012.

(e) The equipment purchased for the following Divisions had been idling in the Divisions without being used.

Division	Equipment	Value	Period
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		Rs.	
(i) Planning, Designing and Consultancy Division	Tri Axial Vibration Meter	1,923,950	06 years
(ii) Electrical and Electronics Division	Battery Tester	11,949,980	01 year
(iii) Energy and Environmental Division	Carbon Monoxide Analyser	2,607,700	04 Months
(iv) Civil Division	Computer Controlled Universal Testing Machine	1,795,000	01 year

3:7 Identified Losses

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A stock valued at Rs.439,427 had been written off from the books as damaged stocks without formal approval.

3:8 Staff

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Even though research work is the primary function of the Centre, 43 vacancies in the staff related thereto existed. The particulars thereon are given below.

Post	Approved Number	Actual Number	Number of Vacancies
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Chief Research Officer	01	--	01
Research Officer	05	03	02
Chief Research Engineer	13	08	05
Senior Research Engineer	16	01	15
Research Engineer	21	09	12
Engineer	07	01	06
Technical Officer	05	04	01
Technical Assistant	15	14	01
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Total	83	40	43
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4. Systems and Controls  
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Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the Chairman of the Centre from time to time. Special attention is needed in respect of the following areas of control

- (a) Project Costing and Management
- (b) Debtors
- (c) Motor Vehicles Control.