

## **1.1 Opinion**

The audit of the financial statements of the National Research Council for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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. Comments and observations which I consider should be submitted 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 National Research Council as at 31 December 2018, 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 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 intends 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:

- 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 board 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 Financial Statements

### 1.5.1 Accounting Deficiencies

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Recurrent Expenditure totalling to Rs. 91,382 related to the year 2019 had been brought to accounts as an expense in the year under review and the surplus in the year had been understated by that amount.	Action is being taken to rectify the accounting related to this pre-payment and action is being taken to rectify and to present this through financial statements ended 31 December 2019.	All transactions should be brought to accounts accurately.
(b) An amount of Rs. 231,000 paid for third and fourth quarters of the year 2017 as internal audit charges had been brought to accounts under expenses of maintaining buildings in the year under review. The surplus of the year had been understated by that	While action is being taken to rectify the accounting related to the accrued payment pertaining to the year 2017, action is being taken to rectify and to present this through financial statements ended 31 December 2019.	All transactions should be brought to accounts accurately.

amount due to the indication of the expense incurred in the year 2017 as expenses incurred in the year under review without adjusting it to the accumulated surplus.

- |   |   |   |
|---|---|---|
| (c) A gratuity payment amounting to Rs. 447,819 had been made to three employees of the institution who had been confirmed in the service during the year 2018 considering that a service interruption had taken place. Adequate gratuity provisions had not been made in the previous years for this payment.                                    | Provisions had been made for the payment of gratuity in the previous years by the National Research Council on the basis of the basic salary. Approval had been granted at the 80 <sup>th</sup> meeting of the Council held on 18 May 2018 to pay gratuity on the basis of allowances in addition to the basic salary as per the Payment of Gratuity Act, No. 12 of 1983. Therefore, the provisions allocated were not adequate to pay gratuity as allowances were made applicable to pay gratuity in addition to the basic salary. | Action should be taken in compliance with laws, rules and regulations |
| (d) The sum of Rs. 310,063, which was the expenditure for the publication of names of the awardees at the President's Awards for Scientific Publications in newspapers had been brought to accounts as a propaganda expenditure of the institution without accounting it as an expenditure of the President's Awards for Scientific Publications. | The amount received from the General Treasury for the President's Awards for Scientific Publications in the year 2018 was Rs. 04 million. However, the expenditure for this festival had exceeded Rs. 04 million. Since this Head of Expenditure is allocated for expenses incurred for printing and propaganda activities pertaining to the Programmes conducted by the National Research Council, the expenses incurred for the propaganda  | Expenditure should be incurred within the specified budget limit.     |

activities of the President's Awards for Scientific Publications had been brought to accounts as printing and propaganda expenses.

- |   |  |  |
|---|--|--|
| (e) A sum of Rs. 900,000 obtained from the sponsors during the year for the President's Awards for Scientific Publications had been brought to accounts as the income of the year directly under the other receipts. Since the total expenditure incurred for this festival had been reported as income of the year in the financial statements, the sum of Rs. 900,000 had been twice brought to accounts as income. | The total expenditure incurred for President's Awards for Scientific Publications was Rs. 4,852,970.35. Action is being taken to rectify the error of accounting the amount of Rs.852,970.35 out of this amount twice as the income of the year. | All transactions should be brought to accounts accurately. |
| (f) Two travelling expenses paid for the Outreach project during the Accounting period of 2018 had been recorded in account books as a general travelling expense without taking it as project expense. Since all the expenses pertaining to this project are recorded as income of the year, it was observed that taking the value of Rs. 55,044 to the income of the year had been omitted.                         | Action is being taken to rectify the error.  | All transactions should be brought to accounts accurately. |
| (g) Four (04) items which were the totally valued at Rs. 993,816 and  | As per the depreciation policy of the institution, the depreciation ratio of   | All the assets other than lands                            |

purchased in the year 2018 had been identified under property, plant and equipment in the financial statements and the depreciation policy of the institution for this assets had been mentioned as zero (0) per cent without giving a reasonable explanation.

these items had been indicated as 0 per cent and action will be taken to amortize these items with the approval of the Board of Directors of this institution in the ensuing year.

should be depreciated.

### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
-----	-----	-----	-----
(a) Section 03 (b) of the National Research Council of Sri Lanka Act No. 11 Of 2016.	Even though facilitating for developing a research base that will contribute to national needs is a role of the Research Council, the ability of making a publication in Science Citation Index (SCI) as the criteria of determining the success in the evaluating the final result of research project is considered and quantitative attention had not been	The ability of making a publication in Science Citation Index is a design on the validity of the results of a scientific research. Even though the National Research Council is not limited to this criteria, using a base line that has been recognized internationally is an indispensable matter in inquiring whether a specific research outcome has been created through that in measuring the success of a research Here it performs the role of the baseline and this has been taking place	It is necessary to consider the ability of socializing the outcome of the research to benefit the national requirements prior to the commencement of the research and after the finalization of the research.

paid regarding the even at the beginning of the outcome of the National Research Council. research, its effect and The recommendation issued practical usage. for examining the Congenital hypothyroidism of new-born infants which has finally become a national policy in the Health Sector was an excellent example on this. This is a result of a research financed by the National Research Council.

**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a surplus of Rs. 5,501,052 and the corresponding surplus in the preceding year amounted to Rs. 1,084,738. Therefore, an improvement amounting to Rs. 4,416,314 of the financial result was observed. The major reasons for the improvement are the increase in the receipts of recurrent provisions by Rs. 1,825,924 and non-utilization of provisions amounting to Rs. 5,120,440 received for the Asbestos project.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
-----	-----	-----
(a) Even though a procurement plan / time frame have to be obtained from the	Project Investigators should take measures to obtain approval for procurement for the purchase of equipment within 09 months after granting funds for the research	A plan on the required equipment and purchasing of such required equipment



researcher for projects as per the Guidelines Manual of should be designed purchasing equipment the National Research Council. At before the without delay to confirm present, the Council is motivating the commencement of a the finalization of the project Investigators by regulating the research. research projects process of obtaining the procurement efficiently within the approval of research projects. expected time periods, it Accordingly, majority of project had not been done so. researches make arrangements to obtain the procurement approval within the first 09 months and the other Investigators are unable to obtain procurement approval within the prescribed period of first 09 months due to unavoidable circumstances. Research projects are not discouraged or new projects are not implemented by the limitation occurs as a result of designating plans.

(b) Even though the The Investigators are made aware of the An efficient investigators are made views of the evaluators related to the methodology should be aware of the comments progress reports. Certain Investigators prepared to evaluate of the evaluator related provide relevant responses to such views immediately after the to the progress reports, a of evaluators. Some Investigators make finalization of the methodology of relevant responses and some investigators research by obtaining obtaining immediate make delays in making responses. It has progress reports in that responses related to that been scheduled to prepare a methodology regard and to obtain had not been prepared. of getting quick responses in this regard in views of investigators in relation to such evaluations.

(c) In the evaluation of the In the evaluation of the progress of the A systematic progress of the Investigator Driven Research Grants of programme has to be Investigator Driven research projects, the progress reports implemented for the Research Grants of submitted by the Investigators are not evaluation of the

research projects, the only evaluated. An officer of the National progress of the research progress reports Research Council visits the relevant projects. submitted by the research institutions once a year and Investigator are only examine inventories. The officer also evaluated and action had examines physical progress. not been taken to physically examine and to review the progress.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) Even though it had been identified that there is the possibility of improving 03 projects costing to Rs. 16,024,000 for commercialization, action had not been taken in that regard.	The Investigator Driven Research Grants Projects implemented by the National Research Council are fundamental researches and the major objective of conducting such researches is to obtain the advancement in Science within the country and such projects are not mostly commercialized. However, it has been identified that there is a feasibility of improving 03 projects for commercialization. At present, the National research Council carries out following up activities for 50 projects which were finalized from 2005 to 2011. Accordingly, following up activities will be conducted in the future for the aforementioned 03 projects.	A methodology should be introduced to identify and to improve researches which can be commercialized.

- |   |  |   |
|---|--|---|
| <p>(b) The research project costing Rs. 11,583,792 initiated in the year 2013 with a Private Company for improving the secretion of Gyrinops walla species (locally known as Walla Patta) for commercialization and for establishment of nurseries had been finalized in December 2017 successfully. The National Research Council had incurred Rs. 5,687,500 for this project. Even though it had been expected to create direct and indirect employment opportunities and to obtain a higher income by the exportation of the secretion of Gyrinops walla (locally known as Walla Patta), it was not possible to obtain the approval required for export the parts of Walla Patta tree even by May 2019, the date of the audit. Therefore, it was not possible to accomplish the anticipated objectives of the project.</p> | <p>It is a well-known factor that there is a high demand for the secretion discharged from the trunk of Gyrinops walla (locally known as Walla Patta) in foreign countries. According to the legal system of our country, it is not possible to export the species and the one of the major objective of this research is to introduce the products obtained from Walla Patta tree and thereby, introducing the export value of the tree. The research partner had invited the assistance of various Ministries and he was instructed to export this secretion after adding a certain dissolvent to reduce the value of it. However, the research partner is of the view that it is not useful to adopt the aforementioned method since the pure secretion itself is demanded by foreign industries.</p> | <p>The social as well as economic factors that may affect the improvement of the outcome of a research should be taken in to consideration before initiation of a research.</p> |
| <p>(c) A sum of Rs. 102,075 had been incurred for the recruitment of two Management Assistants during the year under review, the relevant recruitments had</p>  | <p>The National Research Council had invited applications for the recruitment of two Management Assistants for the year under review and basic screening activities pertaining to the recruitment</p>  | <p>Recruitments should be completed.</p>  |

not been made even by May 2019.

had been conducted by officers of the National Research Council. For that purpose, an expense of Rs. 102,075 had been incurred. However, recruitments were delayed as it was identified that the cost for conducting open competitive examinations for recruitments may be very expensive.

- |     |   |   |  |
|-----|---|---|--|
| (d) | Notes on motor vehicle spare parts and air conditioner spare parts worth Rs. 105,992 purchased for the National Research Council during the year ended 31 December 2108 had not been stated in the stock inventory. | An air-conditioner spare part had been fixed to the motor vehicle and an amount of Rs. 105,992 had been incurred for that purpose. This had been stated in fixed assets register and it had not been stated in stock register and action is being taken to rectify the error. | Purchases should be accurately stated in the stock register. |
| (e) | An equipment related to a research grant purchased at a cost of Rs. 1,775,313 had been stated in the stock register as Rs. 597,005.   | The total value of this equipment was Rs. 1,775,312 and it had been paid by using 7 vouchers. Only the value of one voucher had been included in the stock register. The value of this equipment was rectified in the stock register as Rs. 1,775,312.                        | Purchases should be accurately stated in the stock register. |

### 3.3 Projects or Capital Work

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) The National Research Council had initiated a project costing Rs. 20,218,000 in the year	This project was initiated for controlling the CKDu disease of the people residing at Settikulam in Vavuniya selecting this area as a specimen under Public Private Partnership	It is suitable to utilize the saved amount for productive

2014 jointly with a Private Company for identifying the effect for minimizing kidney infections through decreasing the the level of chloride and concentration in drinking water and domestic water within a Grama Niladhari's Division in the Vavuniya District. As per the evaluation of final reports carried out in February 2019 for this project finalized in August 2017, this project is scientifically successful. However, it was indicated as an unsuccessful project in terms of Public Private Partnership (PPP). The decision of the Governing Board had not been taken in relation to this project even by the date of audit and an amount of Rs. 1,860,437 had remained idle in the relevant account.

Programme jointly with the National Research Council, University of Colombo and Link Naturals Private Ltd. The project team had made arrangements to continuously distribute purified water using the water purification machine related to this project to every family. The Research team believed that the health condition of residents could be improved by providing purified water continuously for a period of 03 years. The project team of this project was capable of measuring criteria of the condition of the disease of the persons who had used the purified water through conducting medical clinics and to collect more and more data. Thereby, the project team was capable of collecting a large set of information related to cure the CKDu disease of the people residing in Settikulam area. Publication of the information gathered through such researches in scientific publications will provide opportunity to use them in future researches related to the CKDu disease. Publication of conclusions obtained by adding data obtained using Settikulam area as a specimen for enabling the use of such conclusions for future researches would be helpful to find permanent remedial methods for the CKDu disease.

- (b) The contribution of the National Research Council for Public private Partnership Project called as Locally Development Sustained Release Tablets, which had been estimated at Rs. 50 million had been Rs. 25 million. This project, aimed at developing a tablet that makes it possible to absorb drugs systematically to the body throughout the day by a tablet used in one time had been decided to stop as per the decision of the Council dated 02 November 2018. Attention had not been paid on the effect of the competitiveness, the main factor in identification of the project and the determination of the time period of the project.
- The effect of the competitiveness had been taken in to consideration at the time of identifying this project and at the moment any Sri Lankan Institution had not taken action to manufacture such a drug. However, it was not possible to attain the performance levels targeted during the anticipated period due to various issues taken place in the manufacture of this drug during the period of implementing this research. The Private Institution itself informed of the issue that took place in this relation and the project partners as well as the National Research Council decided that it is most appropriate to stop this highly expensive project as a long period of time has to be spent on this project and a larger amount of cost has to be incurred for the research and action has already been taken by other competitive manufacturing companies to manufacture this drug.
- Social, economic and competitive factors that may affect the researches should be taken in to consideration prior to undertaking researches.
- (c) Equipment valued at Rs.2,869,904 that had been purchased under the grants of the Council for
- The partners of the project requested to provide the equipment to the private partner after getting assessment reports of the government since the equipment can be
- Assets purchased for researches should be utilized for useful

the research project mentioned in (b) above had remained idle even by May 2019 without utilizing the equipment for a useful activity. utilized for the other pharmaceutical activities. researches. The approval was granted to this request at the meeting of the National Research Council held on 22.02.2019. The equipment has already been installed at the laboratory of the private partner and the equipment is being utilized for such pharmaceutical researches. I would like to inform you that the National Research Council takes action to obtain assessment reports of the government for this equipment.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>Even though grants are provided for Investigator Driven Research Projects, Target Oriented Multidisciplinary Research Projects and Public Private Partnership Research Projects by the National Research Council, the provisions allocated for each research project included in the Action plan prepared for the year under review had not been stated separately.</p>	<p>The provisions allocated for each research project had been separately included in the Action Plan related to the year 2019.</p>	<p>Financial and physical plans should be submitted by the Action Plan.</p>