

1.1 Qualified Opinion

The audit of the financial statements of the National Research Council for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2019, 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 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 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
Although it is the policy of the Council to identify the depreciation value from the date that property, plant and equipment are ready for the use, the value of depreciation has been calculated by considering the month of purchasing property, plant and equipment as the base in the calculation of depreciation for the year ended 31 December 2019. Nevertheless, the value of depreciation had been understated by Rs. 1,003,624 in calculating the surplus in the current year. As	Depreciation has been identified based on the month in which the equipment was purchased after changing the previous policy for the year ended December 2019. Although this change had been submitted to the Council for approval, the meeting of the Council scheduled to be held had not been held due to various reasons by the time the financial statements had been	Policy changes should be implemented with the approvals.

a result, there was a significant time gap between the date on which the fixed assets were ready for use and the date on which they were identified in the books.

submitted. The policy change was approved at the first meeting of the new Board of Directors and it will be presented by notes in the financial statements for the year ended 31 December 2020 as a policy change effective from 2019.

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

References to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) FR 381	Although the approval of the General Treasury should be obtained for opening an official bank account, a current account was opened on 26 March 2019 for loans of the employees using a sum of Rs.1,920,000 from the main account of the institution without obtaining the relevant approval.	Although the approval should be obtained from the General Treasury to open an official bank account in accordance with FR 381, the Council shall have the power to open and maintain current, savings or deposit accounts in any bank or banks in terms of Subsection 15 (b) of Part IV of the National Research Council of Sri Lanka Act No. 11 2016. Action will be taken to obtain an approval again in this regard.	Action should be taken in terms of FR 381.
(b) FR 371(2) (b) as amended by Public Finance Circular bearing No. 3/2015 of 14 July 2015.	An accounting officer may authorize an Ad-hoc Sub- Imprest up to a maximum of Rs. 100,000/- only to a staff officer for any specific purpose and when it is required to exceed the financial limits, the prior approval of the General Treasury (Department of Treasury Operations) should be obtained by the Accounting Officer with the	Advances exceeding Rs.100,000 has been given for the Corporate Social Responsibility (CSR) programmes of the Council and it was recommended at the 12th Audit, Finance and Management Committee Meeting to obtain a maximum advance of Rs.250,000 for this programme and it was	Action should be taken in terms of provisions of the Public Finance Circular No.3/2015.

recommendation of the approved at the 54th
Chief Accounting Officer by Meeting of the Board of
sending a request including Directors.
adequate information
justifying such requirement.
Nevertheless, a total of sub
imprest amounting to Rs.
1,780,360 exceeding Rs.
100,000 had been granted in
twelve instances without
obtaining the prior approval
of the General Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 3,073,225 and corresponding surplus in the preceding year amounted to Rs. 5,501,052. Therefore, a deterioration amounting to Rs. 2,427,827 of the financial result was observed. The major reason for the deterioration was the reduction in receipts for the Asbestos Project by Rs.3,687,662 and increase in the remuneration of employees by Rs.3,159,700.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The relevant projects had been completed and any following up activities had not been carried out after giving A / A+ grades and after handing over equipment for 50 projects worth Rs. 189,442,776 out of the projects evaluated in the years 2019 and 2020,	Following up activities will be carried out for projects that will be finalized in the future as well.	Attention should be paid to carry out following up activities and to take further action to bring successfully completed projects into practical use in order to get their contribution in the growth of the national economy.
(b)	Although it had been inquired by the final report on the future steps and future plans that should be taken by the lead researcher of the relevant research in relation to that research as the national wealth	The researcher has been informed to complete and send the relevant parts.	This should be taken into consideration when project proposals are evaluated.

spent on research should ultimately be directed towards the public interest, it was observed that the attention paid by the lead researcher in that regard was in a minimal level and some researchers had not taken action even to complete that section.

- | | | | |
|-----|---|--|---|
| (c) | <p>When the Research Council allocates funds for research projects, the full provision related to the project is credited to a current account under each project at the same time the project is initiated, instead of examining the progress of the research and providing funds from time to time. A sum of Rs. 236,145,771 out of the grants of Rs. 411,509,685 credited to current accounts in relation to 97 projects initiated during the period from 2015 to 2019, remained idle in those accounts even by the date of the audit.</p> | <p>The ability of providing the service charges and publishing fees of the Chemical Research Assistants and Technical Assistants during the second and third years of the project without undergoing any hardships is expected by crediting the full amount of estimated total of a project. There would be a risk of wasting the fundamental amounts spent on the project owing to the shortage of chemicals or research / technical assistants leaving the project midway and it is expected to minimize this by crediting the full provision. Further, the 9 months given for the procurement of basic equipment for all the projects started in the year 2019 had not been completed by 31.12.2019, the date of the audit. The projects for the year 2019 were financed on 12.07.2019. Then the money for the basic equipment of most of the projects was saved in the accounts.</p> | <p>Provisions should be made based on the performance of research projects.</p> |
|-----|---|--|---|

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the letter of awarding funds to the researcher for carrying out Research Projects, the project is considered as successfully completed one when the result / findings related to the project are presented in a recognized journal, especially in a SCI publication. However, it was observed at the audit	Although the methodology of the Research Council is to consider the ability of publishing the research in a SCI publication as the criterion for determining the success of a research project in the evaluation of the end result of research projects, publishing researches in SCI	Action should be taken to derive maximize economic benefits from the money spent on research.

	conducted in relation to 74 projects valued at Rs. 321,581,980 evaluated during the years 2016-2019 that 27 projects worth Rs.114,591,296 had not been published by SCI Publications.	publication as soon as a project is completed has become a difficult task for many researchers as it takes some time.	
(b)	It was observed at the audit conducted in relation to 74 projects valued at Rs.321,581,980, evaluated during the years from 2016 to 2019 that patents were obtained only for 05 projects with a grant value of Rs.16,084,500.	The Investigator Driven Research Grant projects that are implemented by the Council are project-based research and the main objective of project-based research is to advancement of Science in the country. Obtaining patents is not mostly practiced by those projects.	The methodology of considering the possibility of applying the results of successfully completed projects for the national requirements should be introduced expeditiously.
(c)	A sum of Rs. 67,718,155 had been recovered to the Council again for 53 projects completed in the year 2019. Reconveyance in relation to 10 projects out of the projects completed was in the range of 42% to 93% out of the total grants provided. If the estimated expenditure plans, procurement activities and financial progress in relation to these projects had been properly monitored through the Council, it would have been possible to minimize such savings and to minimize idling of public money in current accounts for a number of years.	The financial estimate of these projects is done by the applicant. It is the responsibility of the evaluators to point out any deficiencies in the estimate. The Finance Division of the Council monitors the financial progress of a project once it is started and takes decisions to make the financial utilization efficient. PPP16-11 project had the largest savings out of the ten projects and it was decided at the committee meeting held on 08.11.2018 to terminate the project and the money spent by the Council was withdrawn to the main account.	A close supervision should be done in relation to the activities of the projects.
(d)	In 2018, a sum of Rs. 22,022,624 had been provided for 04 Eco friendly Weed Control projects identified for 03 years and the financial progress of those projects as at 31 December 2019 was in the range of 7 to 15 per cent.	Approval has been granted in the year 2019 to purchase the major equipment for the relevant projects and the relevant payments have been made in the year 2020. EWC 18-04 has been identified as a slow moving funds project and we hope to make the relevant female researcher aware in this regard and to advise her.	The financial progress of the projects should be closely monitored.

(e) Physical verification of sixty four (64) instruments worth Rs.33,902,317 provided by the National Research Council to 05 universities under research grants had not been conducted for a period of 2 to 3 years.	The physical verification of the equipment will be carried out correctly in the future.	Relevant physical verifications should be carried out.
(f) It was revealed that evaluation reports had not been received even by 15 August 2020, the date of the audit even though the final reports of 12 projects worth Rs. 30,741,845 had already been sent for evaluation. It was revealed that no Accordingly, it was observed that there was a severe delay in the receipt of the evaluation reports and any necessary steps to expedite this had not been taken.	Action will be taken to obtain late evaluation reports.	Action should be taken to obtain evaluation reports within a specified time period.
(g) Although it has been stated in the Guidelines Manual that the final report should be submitted within 3 months after the completion of the project, final reports of four projects worth Rs. 15,859,400, out of the samples tested, had not been submitted even by 15 August 2020, the date of the audit. Therefore, it was not possible to get the expected results and benefits from the projects and a methodology for recovering money spent on projects, for which the submission of final reports had delayed.	As the final reports have not been submitted, the matter has been directed to the Board of Directors of the Council to take appropriate final action.	Action should be taken in terms of provisions of the Guidelines Manual for research that delays the submission of final reports and does not provide final reports.
(h) Matters such as delays in obtaining progress reports on research grants, public-private partnership grants, delays in sending progress reports for evaluations, delays in obtaining evaluation reports, delays in communicating matters stated in evaluation reports to lead researchers and delays in obtaining final reports were generally observed.	A Scientific Officer has been employed in service since May 2019. In addition, this officer is responsible for evaluating between 100 to 150 Investigator Driven Research Grant proposals received each year and making project grants for appropriate proposals in accordance with the decisions of the Council.	Progress reports, evaluation reports, monitoring activities, follow up activities should be well planned and well-coordinated.

- (i) A sum of Rs. 03 million had been awarded in July 2016 to the ID 16-38 project launched in July 2016 and 48% of the project value had been idling in Current accounts for 03 years as the progress reports had not been evaluated properly in due time and the lead researcher had not been made aware of the required information and close monitoring had not been carried out. This project was eventually identified as a failed project.
- Since the number of employees at that period was not sufficient to carry out these activities systematically, the administrative officer coordinated these activities. This delay was due to the busy work schedule. A separate scientific officer to monitor the scientific progress of these projects will be appointed in May 2019. It is expected to avoid such conditions in the future projects.
- Progress reports, evaluation reports, monitoring activities, follow up activities should be well planned and well-coordinated.