

**1.1 Qualified Opinion**

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The audit of the financial statements of the of National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 tabled in Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Center 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**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS).

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**

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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 Center'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 Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Center's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Center 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 Center.

## 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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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 skepticism 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 Center's internal control.
- 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 Center'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 Institute 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 Center, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Center has complied with applicable written law, or other general or special directions issued by the governing body of the Center;

- Whether the Center has performed according to its powers, functions and duties; and
- Whether the resources of the Center had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Accounts Receivable and Payable

### 1.5.1 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
a) A sum totalling Rs. 9,490,550 receivable from 14 completed projects, had not been recovered even by 31 May 2020	Action is being taken to recover the retention monies receivable from two projects valued at Rs. 940,350 completed in the year 2019 included in the said 14 projects and a sum of Rs. 973,760 receivable from 02 old projects and a sum of Rs.4,644,560 receivable from 06 projects.	Action should be taken to recover the monies receivable as soon as the projects are completed.

## 2 Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 11,359,788 as against the surplus of Rs. 10,629,776 in the preceding year thus observing an deterioration of Rs. 21,989,564 in the financial result. This deterioration had mainly been attributed by the increase in administrative expenses by Rs.30,342,983 and decrease in other income by Rs. 3,830,652 .

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) Despite being planned to grant 42 licenses during the year for technologies invented by the Centre, only 28 licenses had been granted by earning an income of Rs. 166,582. Although there had been 63 licensees at the beginning of the year, only	Despite being expected to carry out 42 technological assignments, only 28 entrepreneurs had been willing to obtain the technologies, and their response remained poor. As some of the technologies had already become outdated, lack of interest to renew the licenses relating to such technologies was observed.	The technologies invented by the Center should be improved from time to time whilst taking action to popularize such technologies. Moreover , action should be taken to follow up the progress of renewing of license.

28 of them had renewed their licenses during the year. The income received therefrom amounted to Rs. 194,200. The analysis on the pattern of issuance and renewal of licenses at the Center, it was observed that many of the technologies introduced had not been adequately popular in the country.

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| <p>b) According to the Action Plan, the Center had targeted to introduce 08 new technologies during the year. Nevertheless, only 04 technical instruments and technologies costing Rs. 2,449,157 could be introduced. Even for those technologies, only one patent had been obtained even up to the date of audit.</p> | <p>Even though it was planned to introduce 08 technologies during the year 2019 as per the Action Plan, only 4 technologies could be introduced as the project relating thereto could not be completed during the year. The research projects do not always come to conclusions successfully on time as planned. Technological assignments relating to the technologies introduced, are expected to be done in due course.</p> | <p>As new technologies are invented often, it is necessary to efficiently complete the projects commenced and technological assignment should be expedited.</p> |
| <p>c) Even though 47 technologies had been introduced up to 2010-2019, only 24 technologies had been forwarded for the obtaining /renewal of license during the year 2019.</p>   | <p>It is observed that more interest keen on the technologies which are more demand .</p>  | <p>The technologies invented by the Center should be improved from time to time whilst taking action to popularize such technologies.</p>                       |

### 3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>a) The project for invention of an automatic yoghurt filling and sealing machine had been commenced on 01 February 2017, and scheduled to be completed by 31 December 2017 and the estimated cost therein</p>	<p>This machine is invented including the research activities. Unexpected technical issues arisen during this process and those issues are being corrected by now. Whole main parts of the machine has been completed. After confirming the functioning of the machine on pilot level, it is expected to hand it over and</p>	<p>When deciding on the project duration, practical issues should be taken into consideration, and a realistic time should be allowed to complete the projects</p>

- amounted to Rs.560,000. The project duration had been extended up to 31 December 2019 due to unable to complete the project within the due period. Even though a cost amounting to Rs.711,891 had been incurred as at May 2020 ,the date of audit, the project was not completed .
- receive the remaining money.
- and necessary action should be taken to complete the project in an expeditious manner.
- b) Out of 28 technologies introduced during the period of 2014-2019, only 02 technologies costing Rs.1,920,465 had been applied for patents. Not every technology can be patented. As such requests have been made for patents in regard to 4 technologies at the moment. It is expected to forward applications in respect of more technologies. . The project should be properly monitored so as to achieve the targets.
- c) Even though Advance of NERDC cremator for Environmental Performance Project of estimated cost amounted to Rs.25,845,838 scheduled to be completed within 07 months period as per the Agreement dated 20 October 2017, it had been extended up to 30 September 2019 as per the amended Agreement dated 01 July 2019. However, the project activities had not been completed as at the same date. Even though defects in the crematorium has been expected , (decreasing the quantity of LP gas kilos used for a cremation ,improving the operation of the crematorium entrance) the reason for the delay was it had to re-tendering of the items which could not be received from the foreign suppliers .However, the project has been completed, the Urban Council has not been taken it over up to now and expected to receive the money. Patents should be obtained promptly for the new technologies invented.
- d) Even though this Smart pet bottle crushing machine which had been commenced on 01 January 2018 and to be completed within one year has been estimated for Rs.700,000, an expenditure amounted to Rs.1,053,007 had been incurred as yet. Although dates has been extended up to 31 March The project activities has been delayed due to re commence with a new engineer and the inconvenience of purchasing spare parts .Basic assembling activities and documentation of electric systems are being carried out by now. When deciding on the project duration, practical issues should be taken into consideration, and a realistic time should be allowed to complete the projects and necessary action should be taken to complete the project in

2020, the physical progress of this project was 63 per cent.

an expeditious manner.

- e) Even though the estimated amount of Rs.170,000 for Development of a Device to measure Surface moisture of Green Tea Leaves project which was commenced on 27 April 2015 to complete the work by three months period, an expenditure amounted to Rs.345,042 incurred as at May 2020 .However, the project duration had been extended in 11 instances , the project had not been completed even as at 2020.
- The final primodium has been directed to field testing and it is expected to complete the research as an equipment suitable for the market after doing the upgrading observed at the test.
- When deciding on the project duration, practical issues should be taken into consideration, and a realistic time should be allowed to complete the projects and necessary action should be taken to complete the project in an expeditious manner.
- f) The project which has been estimated amounted to Rs.960,000 and scheduled to be commenced on January 2017 and to be completed on 31 August 2018 and extended in 05 instances , had not been completed even by 30 April 2020.
- Delays has been occurred due to variances in the research methodologies in re-planning of circuits and research focused to the preliminary stage ,doing purchase activities .
- Action should be taken to complete the project by doing research activities in the relevant period.
- Necessary actions should be taken to complete the project promptly.