

**Observations of the Board of Directors in respect of the comments of the Auditor General on the Accounts of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31<sup>st</sup> December 2002 in terms of section 14(2) (c) of the Finance Act No.38 of 1971.**

**2.4.1 Comments on Accounts**

**2.4.1 Accounts Receivable and payable**

- (a) Rs.20,910 – GST unclaimed

The necessary adjustments in this regard have been made in the last quarter return; 2002.

- (b) \* Rs.722, 506/- unsettled creditors over one year.

Approximately 70% of this amount represent the running balance of the customer advance account. Further Rs.82500/- has been settled subsequently.

- \* Rs.867,661/- Debtors un-recovered

40% of this represents the funds recoverable from ex-employees (3 Nos.) who have defaulted their bonds. These outstandings are recovered in installments or under legal action. Further 50% represent the retention due from NITE on civil constructions and under negotiation for recovery.

- (c) Confirmation of balances (Debtors and creditors)

Specific instructions in this regard were given by the auditors only after completion of the audit and accordingly we wrote to the respective parties on 20/5/2003 calling for confirmation.

- (d) Refundable Tender Deposits

Tender deposits are refunded on submission of original receipts subject to recommendation of the Supplies Officer. These outstandings have not been properly claimed by the deposit holders.

- (e) Outstanding Loan Balance

Major component of these outstanding amounts represents the advances/loans given to ex-employees without guarantors as applicable. In some cases, both loan holders and guarantors have vacated their posts unexpectedly.

**2.4.2 Non-compliance with Laws and Rules**

Renewal of patents and trade marks.

This situation will be reviewed so that necessary renewals could be obtained as applicable.

### **3.3. Identified Losses**

The projects referred have been carried out by the Centre as pilot level activities for public sector or within the Centre in respect of popularizing its technologies with a R&D component.

### **3.4 Slow Moving, Idle and Underutilized Assets**

We have some stocks of slow moving items coming down from previous years. We maintain this stock as it is economical to keep it to use when need arise. For damaged items, we make arrangements to dispose them regularly when the Board of Survey is carried out.

### **3.5 Delay in Project**

Delaying of projects, take place due to many reasons.

- ❖ Extra and additional work requested by the client deviating from the original programme
- ❖ Diverting resources from low priority projects to high priority projects
- ❖ Changes determined by the management for R&D activities
- ❖ Financial restrictions

We admit that any such delays should have been covered with necessary approvals for extension. This situation will be regularized soon.

### **3.6 Budgetary Control**

The annual budget of the Centre for the year 2002 was prepared as per guidelines given by the Treasury based on 2001 allocation. The expenditure incurred by the Centre was at a level to meet its least minimum requirements.



RANJAN RODRIGO  
CHAIRMAN TO THE BOARD

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**கணக்காய்வாளர் தலைமை அலுவல்தி திணைக்களம்**  
**AUDITOR-GENERAL'S DEPARTMENT**



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எனது இல.  
My No. }

HP/G/NERD/FA/  
2002

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உமது இல.  
Your No. }

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திகதி  
Date } 7 April 2003

The Chairman  
National Engineering Research and Development  
Centre of Sri Lanka.

**Report of the Auditor General on the accounts of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2002 in terms of Section 14(2)(c) of the Finance Act No.38 of 1971.**

The audit of accounts of the National Engineering Research and Development Centre of Sri Lanka for the year ended 31 December 2002 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 Section 13(1) of the Finance Act No.38 of 1971. My observations which I consider should be published with the annual report of the Centre in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act will be furnished to the Chairman of the Centre in due course.

**1.2 Scope of Audit**

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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கனகத்தி 07, கோலம்பே

தலைநகர அலுவலகம்  
கனகத்தி 07, கோலம்பே

INDEPENDENCE SQUARE,  
COLOMBO 07, SRI LANKA

දුරකථන  
கனகத்தி 07  
Telephone 001151

දුරකථන  
பேரணி இல.  
Fax No.

විද්‍යුත් තැපෑල  
கனகத்தி 07  
E-mail caggov@slnet.lk

## **2. Accounts**

### **2.1 Responsibility for Financial Statements and Audit**

The Board of Directors are responsible for preparing and presenting the financial statements in accordance with Sri Lanka Accounting Standards. My responsibility is to express an opinion on the financial statements presented to audit.

### **2.2 Audit Opinion**

I am of opinion so far as appears from my examination and to the best of my information and according to the explanation given to me, the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes 1 to 6 to the financial statements and give a true and fair view of the financial position of the Centre as at 31 December 2002 and the financial results and cash flow for the year then ended.

### **2.3 Financial Results**

According to the accounts presented, the working of the Centre for the year ended 31 December 2002 had resulted in a deficit of Rs.23,205,061 as compared with the corresponding deficit of Rs.12,257,417 for the preceding year.

### **2.4 Comments on Accounts**

#### **2.4.1 Accounts Receivable and Payable**

The following observations are made in audit.

- (a) A test examination of payments of Goods and Services Tax on local purchases for the year ended 31 March 2002 revealed that G.S.T. amounting to Rs.20,910 had not been claimed from the Department of Inland Revenue.

- (b) Creditors aggregating Rs.722,506 had been remaining unsettled for over one year and debtors aggregating Rs.867,661 had been remaining unrecovered for more than one year.
- (c) Debtors' balances aggregating Rs.1,982,721 and creditors' balances aggregating Rs.2,619,996 had not been confirmed.
- (d) Refundable tender deposits amounting to Rs.112,981 had remained <sup>un</sup>refunded for over 07 years.
- (e) Action had not been taken for the recovery of loan balances amounting to Rs.205,217 relating to 06 categories of loans due from officers who had left the services of the Centre.

#### **2.4.2 Non-compliance with Laws and Rules**

Patent and trade mark of the Centre had not been renewed in terms of Intellectual Property Act No.52 of 1979.

### **3. Financial and Operating Review**

#### **3.1 Financial Results**

The working of the Centre for the year under review had resulted in a deficit of Rs.23,205,061 as compared with the deficit of Rs.12,257,417 for the preceding year, thus showing a deterioration in the financial results by Rs.10,947,644.

#### **3.2 Liquidity Position**

Current liabilities as at the end of the year represented 77 % of the current assets as compared with the 69.1 % as at the end of the preceding year.

**NATIONAL ENGINEERING RESEARCH & DEVELOPMENT CENTRE OF SRI LANKA**

**BALANCE SHEET AS AT 31/12/2002**

31.12.2001 Rs.		Note No.	Rs.	31.12.2002 Rs.
84,657,731.72	Fixed Assets	01		107,110,855.87
29,788,495.03	Work-in-progress Capital	02		30,927,544.66
5,663.70	Trade Mark	03		3,209.00
54,400.00	Patents	04		68,885.00
2,621,000.00	Fixed Deposits	-		2,621,000.00
154,474,001.00	Current Assets	05	164,547,951.88	
	Less :			
107,104,277.84	Current Liabilities	06	126,588,218.31	
<u>47,369,723.16</u>	Working Capital			<u>37,959,733.57</u>
<u>164,497,013.61</u>				<u>178,691,228.10</u>
	Financed By :			
1,000,000.00	Capital-Funded by the Treasury			1,000,000.00
183,440,463.24	Contribution – Government Grants	07	205,440,463.24	
38,998,070.15	Other sources		<u>52,391,121.27</u>	257,831,584.51
12,530,357.50	Provision for Gratuity			13,933,492.50
	Less :			
<u>(71,471,877.28)</u>	Expenditure over income	08		<u>(94,073,848.91)</u>
<u>164,497,013.61</u>				<u>178,691,228.10</u>

  
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**RANJAN RODRIGO**  
**CHAIRMAN**

  
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**M. J. A. WAAS**  
**FINANCE MANAGER**

**NOTE OF THE AUDITOR GENERAL**

The accounts of the National Engineering Research & Development Centre of Sri Lanka for the year ended 31 December, 2002 were audited 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 Section 13(1) of the Finance Act No. 38 of 1971.

My observations on these accounts that should be published in terms of Section 14(2) (c) of the Finance Act are contained in my report of even date addressed to the Chairman of the Centre.

**(S. C. Mayadunne)**  
**Auditor General.**  
**22 April 2003**  
**Auditor General's Department,**  
**Colombo 07.**

**NATIONAL ENGINEERING RESEARCH & DEVELOPMENT CENTRE OF SRI  
LANKA**

**INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31.12.2002**

	<b>NOTE NO.</b>	<b>(Rs.)</b>
Expenditure over income as at 01.01.2002		71,471,877.28
Add: Expenditure relating to the previous year		1,070,380.72
Less : Income relating to the previous year		<u>1,673,470.33</u>
		70,868,787.67
Add : Expenditure for the year	08	146,069,141.69
Less : Income for the year	08	<u>122,864,080.45</u>
Expenditure over income as at 31.12.2002		<u>94,073,848.91</u>