

## Industrial Development Board

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### 2. Financial Statements

#### 2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Industrial Development Board of Ceylon had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Industrial Development Board of Ceylon as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### 1:2 Comments on Financial Statements

##### 1:2:1 Sri Lanka Accounting Standards

Non – compliances with the following Sri Lanka Accounting Standards were observed.

Sri Lanka Accounting Standards (SLAS)	Non - compliance
(a) SLAS 3	The Statement of Changes in the Equity had not been presented with the financial statements.
(b) SLAS 18	Even though the assets should be depreciated on the basis of the effective life of the asset the depreciation policy followed by the Board was contrary to such requirement.

1:2:2 Accounting DeficienciesInappropriate Disclosures

- (i) Goods valued at Rs.20,679,844 distributed among the persons affected by the tsunami disaster had been shown as assets under the projects.
- (ii) A sum of Rs.1,424,654 receivable as the Goods and Services Tax not in operation at present had been shown under the current assets in the financial statements as at 31 December 2010.

1:2:3 Unreconciled Control Accounts

The following observations are made.

- (i) A reconciliation of the financial statements and the subsidiary registers revealed differences of Rs.22,232,003 in the scraps sales income and Rs.27,476,261 in the expenditure on the purchase of scrap.
- (ii) A reconciliation of the stocks of the Foundry Section, Pilimatalawa Brass Centre and the Rubber Section shown in the financial statements and the stock verification reports revealed overstatements and understatements amounting to Rs.75,832 and Rs.1,080,500 respectively as shown below.

Stock	Balance According to Financial Statements	Balance according to Stock Verification Reports	Increase / (Decrease)
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	Rs.	Rs.	Rs.
Foundry Section	911,618	987,450	75,832
Pilimatalawa Brass Centre	655,193	57,245	(597,948)
Rubber Section	7,048,322	6,565,770	(482,552)

#### 1:2:4 Unexplained Differences

- (i) Even though a sum of Rs.13,919,430 had been shown under the current assets as the Value Added Tax Receivable, that had been shown as Rs.230,740 in the Tax Return submitted to the Department of Inland Revenue as at the end of the year under review. The differences amounted to Rs.13,688,690.
- (ii) According to the Tax Returns submitted to the Department of Inland Revenue, the reimbursable Value Added Tax retained amounted to Rs.230,440 whereas a sum of Rs.346,482 had been shown in the financial statements as the Value Added Tax payable. The difference amounted to Rs.576,922.
- (iii) Five Bank Accounts of the Board included unidentified balances amounting to Rs.3,438,008.

#### 1:2:5 Accounts Receivable and Payable

##### (a) Accounts Receivable

- (i) According to the age analysis of debtors, the balances of 29 Accounts Receivable less than one year old as at 31 December 2010 amounted to Rs.20,340,568, the balances old between 01 year and 02 years amounted to Rs.13,147,138, the balances old between 02 to 04 years amounted to Rs.3,839,035 and the balances older than 04 years amounted to Rs.19,839,102 totalling Rs.57,165,843. Nevertheless, the provision made for bad debts amounted to Rs.5,514,921 or less than 10 per cent.
- (ii) Non – existing balances amounting to Rs.5,188,562 relating to 84 debtors balances of the Industrial Estates at Ekala, Horana, Pallekelle and Pannala had been shown as the Industrial Estates Debtors in the final accounts for the year 2010. Adequate provision for bad debts had not been made.
- (iii) Personal advances amounting to Rs.1,225,618 obtained in the year under review and the preceding years had not been settled.

(b) Accounts Payable

- (i) According to the age analysis a sum of Rs.91,768,653 relating to 42 accounts remained payable as at 31 December 2010 and the creditors older than 03 years amounted to RS.72,607,310.
- (ii) Even though the deposits of Rs.4,403,395 of 201 industrialists who had left the Industrial Estates had been settled, those had been erroneously shown under the creditors as at the end of the year under review.
- (iii) Even though there are no “hire purchase” industrialists in the Industrial Estates at present, a sum of Rs.10,181,454 had been erroneously shown in the financial statements as at 31 December 2010 as deposits refundable to 114 such industrialists.
- (iv) A sum of Rs.49,306 relating to 09 personal advances had been shown as credit balances in the financial statements.
- (v) Refundable tender deposits older than 03 years amounting to Rs.887,238 existed. Even though those should have been refunded after the completion of the works, those had been shown in the accounts without being refunded.

1:2:6 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to the unavailability of the evidence indicated against each item.

Item -----	Value -----	Evidence not made available -----
	Rs.	
(i) Closing Stock – Stocks of Scrap	8,295,784	Stock Verification Reports
(ii) Prepayments	37,125,654	Updated Register of Prepayments.

(iii) Revaluation Profit	16,697,397	Journal Vouchers and Journal Entries containing the particulars of revaluation.
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1:2:7 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non – compliance observed during the course of audit are given below.

Reference to Laws, Rules, Regulation and Management Decisions	Non - compliances
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(a) <u>Government Financial Regulations</u> (i) FR 104, (ii) FR 110, (iii) FR 135, (iv) FR 188 (2), (v) FR 139 (4), (vi) FR. 371 (b), (vii) F.R.R. 756 and 757, (viii) FR. 770 (3), (ix) FR 1645 (a), (x) FR. 1647 (e), FR 802 and Schedule vi of Part ii of Financial Regulations and (xi) FR 1653	Action had not been taken in terms of the Financial Regulation.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka – Chapter xiv Sub-section 4:1	Contrary to the provisions, the officers performing field duties had been paid a sum of Rs.322,655 as reimbursement of lodging allowance at the rate of Rs.300 per day in addition to the combined allowance.
Circulars	
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(i) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 5:2:1	The budgeted balance sheet, the Income Statement and the Cash Flow Statement had not been presented with the annual budget.

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| (ii)  | Public Enterprises Circular No. 9/2002 of 16 October 2002   | Even though only 75 per cent of the amount allocated for overtime should only be spent, a sum of Rs.3,800,170 exceeding such limit had been spent.    |
| (iii) | Circular No. PE/2010/04 dated 13 February 2010 of the Commissioner of Elections<br>Paragraphs 03,04,09, 10 and 11 | Contrary to the stipulations 04 motor vehicles of the Board had been used during the period of elections.   |
| (iv)  | Public Administration Circular No. 06/97 of 03 February 1997  | Payments at the rate of $\frac{1}{4}$ of the initial salary of the acting post had been paid in respect of 04 posts over a period exceeding one year. |
| (v)   | Management Services Circular No. 30 of 22 September 2006  | The Scheme of Recruitment and Promotions had not been prepared and approval thereto had not been obtained.  |

## 2. Financial and Operating Review

### 2:1 Financial Review

#### 2:1:1 Financial Results

The Government grant for recurrent expenditure for the year 2010 amounted to Rs.221,250,000 and the operating results of the Board for the year before taking into account the Government grant amounted to Rs.240,000,525 and the corresponding deficit for the preceding year before taking into account, the Government grant of Rs.222,000,000 amounted to Rs.231,194,712. Thus a deterioration of Rs.8,805,813 was indicated. The decrease of Rs.10.5 million in the external income had been the major reason for such position.

## 2:2 Performance Review

### 2:2:1 Performance

- (a) There were non – operating industrial projects in 03 building units and 05 developed blocks of lands in the Ekala Industrial Estate.
- (b) Even though a sum of Rs.5 million had been released from the Cess Fund for the creation of a Revolving Fund for providing funds to the industrialists for the procurement of raw materials, that amount had been made available to the Rubber Products Development Division for the purchase of raw materials. Thus, the intended objective had not been achieved.
- (c) A reconciliation of the Action Plan with the actual progress revealed 28 instances of achievement less than 50 per cent while the non – implemented programmes of 09 Sections stood at 17.

### 2:2:2 Management Inefficiencies

#### (a) Purchase of Bus for conducting Mobile Training Programmes

The bus purchased in the year 2009 at a cost of Rs.8,712,000 with the intention of disseminating technology from village to village had performed only 08 trips of 3,098 kilometres in the year 2010. Even though bus had not run over a long period due to the Project for the Dissemination of Technology from Village to Village being unsuccessful, the bus needed repairs

#### (b) Unused Bill Printing Machine

The Bill Printing Machine purchased at a cost of Rs.306,750 in the year 2008 for the Lakkam Marketing Centre at Katubedda had not been used.

(c) Purchase and Distribution of Manual Potters' Wheels

Out of the 68 manual potters' wheels valued at Rs.906,450 fifty six had been handed over to the suppliers on 11 June 2008 for redoing and those had not been received back by the Board even by the end of the year under review. The balance damaged 12 potters' wheels had been left in the stores without being repaired.

2:2:3 Operating InefficienciesScrap Materials Project

A system of procedures relating to the purchase, sale and storage of scrap material had not been prepared and implemented in accordance with the Cabinet decision relating to the implementation of the Project. Deficiencies observed in connection with the purchase, sale and storage are given below.

- (i) Advances amounting to Rs.4,591,122 and Rs.2,000,000 had been paid in the year 2007 to the Department of Customs and the Handicrafts Board respectively for the purchase of scrap material while a sum of Rs.1,500,000 had been made available in the year 2008 for the establishment of a Laksala Marketing Centre. Those had not been settled even by the end of the year under review.
- (ii) Even though prepayments amounting to Rs.2,811,759 had been made to 05 institutions about one year ago, action had not been taken to collect the goods by the Board.
- (iii) Orders had not been issued in making prepayments for the scrap materials and as such it was not possible to determine the varieties and quantities of goods purchased.
- (iv) The costs of newspaper advertisements not relating to the Board amounting to Rs.775,263 had been incurred from the Scraps Project.
- (v) Further advances for the purchase of scraps materials had been paid before the collection of goods equivalent to the advances paid previously.



- (vi) Even though scrap materials should be distributed at a fair prices to the small scale industrials, contrary to such stipulation, scrap materials valued at Rs.24,097,624 purchased from 05 institutions had been distributed among 10 large scale industrialists. In addition, the office copies of receipts issued by the Financial Division in support of the receipt of the money due from them were nt produced for audit.
- (vii) Even the large scale businesses as well as transporters had been registered under the Scraps Project as small scale businesses.

#### 2:2:4 Uneconomic Transactions

There were 06 dormant Bank Accounts of the Board and those accounts had balances amounting to Rs.80,854 and an overdraft of Rs.175.

#### 2:2:5 Idle and Underutilized Assets

The following observations are made.

- (a) The building at Mahiyangana Miyunugama and the hostel of the Appropriate Technology Centre at Pannala, the value of which had not been assessed, the Productions Showroom and Marketing Centre at Badulla valued at Rs.1,412,000 and the Kotagala Superintendent's Bungalow valued at Rs.4,131,520 had not been utilized over periods ranging from 03 to 14 years.
- (b) Mushroom dryer machine valued at Rs.1,180,000, three dough mixers valued at Rs.298,500, reed and palmyrah leaf goods at the Kunaragama Village valued at Rs.87,947, a delivery model three wheeler valued at Rs.159,000, and a motor car, the value of which had not been indicated remained without being used over periods ranging from 02 to 11 years.

### 2:2:6 Identified Losses

- (i) Over payments of salaries amounting to Rs.6,268,931 and underpayments of salaries amounting to Rs.1,212,589 had been made from the year 2006 to 2010 due to erroneous computations of salaries due to the failure to apply the correct salary steps in terms of the Management Services Circular No. 30 of 22 September 2006.
- (ii) Action had not been taken for the recovery of the loss of Rs.313,091 resulting from the loss of stocks from the Nawabima Scraps Stores, from the parties concerned.
- (iii) Twenty eight manual potters' wheels valued at Rs.260,400 supplied for the use of the Polwatte Clay Village could not be used as those were not in conformity with the specifications.
- (iv) Two coir rope machines valued at Rs.55,200 supplied to the Heenatiyana Coir Village had been misplaced.
- (v) Bank overdraft interest amounting to Rs.44,658 had been paid in the year under review on the overdraft balances of 07 Bank Accounts.

### 2:2:7 Personnel Cost

The following observations are made.

- (i) Salaries amounting to Rs.12,316,092 had been paid to 53 employees deployed in service in the year under review under the contract and casual basis.
- (ii) Action had not been taken to recruit employees to fill the 262 vacancies existing posts in the approved cadre.

### 2:2:8 Corporate Plan

Action had not been taken in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003 for updating the Corporate Plan and the Cadre requirements, the Organization plan and the strengths, weaknesses, opportunities and threats analysis had not been included therein.

### 2:2:9 Audit and Management Committees

Even though the Audit and Management Committees should meet at least once in each quarter in terms of Section 7:4:1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, no meetings had been held in the year 2010.

## 3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Preparation of Bank Reconciliation Statements
- (b) Budget
- (c) Accounting and Computer Systems
- (d) Debtors and Creditors Control
- (e) Motor Vehicles Control and Maintenance of Registers
- (f) Purchase and Sale of Scrap Materials
- (g) Advances
- (h) Stock Control