Industrial Development Board of Ceylon – 2015

The audit of financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 and Section 38 (1) of the Industrial Development Board Act, No.36 of 1969. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. 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 the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Industrial Development Board of Ceylon as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

In taking decisions in terms of Sections 29 and 15 of the Standard, materially significant items should be separately represented. However, the lands of the Board valued at Rs.67,595,691 and the value of development of lands had been added and shown. Moreover, the annual depreciation of Rs.577,667 for development of lands had been adjusted under lands itself.

(b) Sri Lanka Accounting Standard 16

According to Section 36 of the Standard, if a revaluation of a class of items is carried out, all assets relating to that should be revalued. However, in the revaluation of assets carried out in the year under review, out of 40 motor vehicles used by the Board, only 25 motor vehicles had been subjected to revaluation.

(c) Sri Lanka Accounting Standard 20

The Government grants for special projects amounting to Rs.36,509,323 utilized as at 31 December 2015 had been shown under Current Assets and Government grants totalling Rs.71,715,838 received to the Board as at that date had been shown as Non-current liabilities without taking action according to Sections 24 and 29 of the Standard.

(d) Sri Lanka Accounting Standard 36

Adjustments had not been made for impairment in terms of the Standard in respect of the unserviceable mobile technical bus revalued at Rs.2.5 million.

(e) Sri Lanka Accounting Standard 37

Provisions of Rs.3,048,557 made for slow moving and outdated stocks had been brought forward since the year 2013 without any review whatsoever in terms of Section 29 of the Standard.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) According to the audit test check carried out, classes of assets such as machinery, sundry assets and computers included the other assets totalling Rs.2,703,783 which does not belong to those classes of assets and the depreciation rates had been contradictory to each other. As such, it was observed that the net value of those assets is inaccurate.

(b) The unidentified deposit balance in the Bank Reconciliation Statements relating to 03 bank accounts maintained by the Board amounted to Rs.2,300,062 as at 31 December of the year under review and action had not been taken to identify these balances and to account them.

2.2.3 Unexplained Differences

The following observations are made.

(a) According to the reports issued by the Industrial Estate Sector, a difference totalling Rs.13,473,162 was observed between the amount recoverable to the Board from the industrialists of industrial estates as at 31 December 2015 and the outstanding balance shown in the financial statements as at that date.

(b) According to the statement of financial position as at 31 December 2015, a difference totalling Rs.6,232,030 was observed between the carrying amount of property, plant and equipment and the balances shown in the Register of Fixed Assets.

(c) In comparison of the Stock Verification Report with the total balances relating to 14 stock items shown as closing stocks in the statement of financial position, a difference of Rs.522,972 was observed.

(d) According to the statement of financial position as at 31 December 2016, the stock value of the project of collection and sale of scrap iron amounted to Rs.8,458,614. However, according to the Stock Records submitted to Audit, that value was Rs.2,746,359 thus observing a difference of Rs.5,712,255. Even though the value of the stock of scrap iron purchased under this project amounted to Rs.78,105,492, according to the relevant Schedule, it was Rs.67,397,042.

(e) Differences totalling Rs.5,582,169 had been observed between the reports of income of the Finance Division in respect of income received from training programmes conducted by the Board in the year under review and the reports of each Division of the Board which had organized those programmes.

2.2.4 Suspense Accounts

A balance of Rs.1,113,704 was observed in the Suspense Account as at 31 December 2015 and out of that, a balances amounting to Rs.374,027 had not been settled even by 30 June 2017.

2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) Information relating to the confirmation of the internal sales income of Rs.4,047,845 comprised in the income from services in the year under review, had not been made available to Audit.

(b) The revaluation of the assets of the Board had been carried out by an officer employed in the Board, who is professionally qualified in the valuation of property and the Schedule of the revalued machinery and other assets, the information such as professional valuation given as at 31 December 2015 under those classes of assets, had not been made available to audit even by 30 June 2017.

(c) Adequate explanations and evidence had not been made available to Audit in respect of the unusual debit balance of Rs.1,407,159 remained in the Lakkam Creditors' Account shown under other Current Assets and the credit balance of Rs.1,930,587 shown under Current Liabilities.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) No action whatsoever had been taken to recover staff loans and advances totalling Rs.8,765,537 included in the financial statements as at 31 December 2015 and provisions had been made in the financial statements against that balance. Moreover, proper steps had not been taken to correctly identify and to recover dormant balances totalling Rs.15,597,281 continuously brought forward for many years under other Current Assets.

(b) Deposits and prepayments totalling Rs.2,443,961 from the year 2011 and preceding years had been continuously brought forward and the schedules relating to it had not been reconciled with the figures included in the General Ledger and as such, this situation had arisen.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board had been a surplus of Rs.27,259,111 as compared with the corresponding surplus of Rs.419,312 for the preceding year thus observing an improvement of Rs.26,839,799 in the financial result of the year under review as compared with the preceding year. The increase in recurrent grants by Rs.46,750,000 as compared with the preceding year had been the main reason for the above improvement in the financial result.

An analysis of financial results of the year under review and 4 preceding years revealed that the deficit of Rs.6,757,459 of the year 2011 had increased to Rs.84,728,727 by the year 2013 and there had been a surplus of Rs.419,312 in the year 2014. However, in readjusting employees' remuneration and depreciation for non-current assets to the financial result, the contribution of the Board had taken a favourable value from the year 2011 to the year under review and it had been Rs.239,876,864 in the year 2011. Even though it had decreased to Rs.224,882,033 in the year 2012, it had continuously increased in the ensuing years and had been Rs.376,186,473 as at the end of the year under review.

4. Operating Review

4.1 Performance

The main objective of the Industrial Development Board of Ceylon incorporated under the Industrial Development Board Act, No.36 of 1969 is encouragement, promotion and development of industries and comprises of sections such as engineering technical services, marketing, rubber development and leather goods development including 19 industrial estates and 25 regional offices. The following observations are made in respect of the performance of the Board.

(a) Forty nine per cent of the operating income of the year under review represented the receipts from the project of collection and sale of scrap iron and a minimum contribution of 14 per cent had been received to the income from the moulding section, workshop, service centres and other operations maintained by the Board. Accordingly, it was observed that the performance of the sections that fulfill the main objectives of the Board had not been effective.

(b) The Technical Services Division established with a view to improving the industrial technical knowledge, functions under 08 main activities and only 05 Awareness Programmes on Technology had been conducted in the year under review by that Division thus observing that the progress in exchange of industrial technical knowledge had been at a weak level.

(c) Even though 14 activities were planned to be fulfilled by the Rubber Development Division in the year under review, key activities in respect of establishment of new businesses, promotion of quality products targeting the foreign market had not been implemented in the year under review.

(d) The following observations are made in respect of the performance of the Engineering Division of the Board.

   (i) Even though new creations were expected through the workshop operated by the Engineering Division, no new creation whatsoever had been produced in the year under review. Moreover, it was observed that during the 03 preceding years, only 02 new creations had been introduced to the industrialists. As such, the progress of achieving the objectives of establishing the workshop had been slow.

(ii) According to the Action Plan for the year under review, 229 activities had been planned to be performed through the Appropriate Technology Research Centre at Pannala for generating external income. However, only 68 activities had been performed. Even though it had been planned to perform 100 activities through the Moulding Division of the Board, only 10 activities had been performed in the year under review.

(iii) Machinery valued at Rs.18,643,306 had been received from the Government of Japan in the year 1996 to the Board as aid for the improvement of technical equipment in respect of moulding in Sri Lanka. Nevertheless, the Engineering Division had not taken action to conduct training programmes so as to make use of the relevant machinery in fulfilling the intended purposes.

(d) The Planning Division of the Board had planned to conduct a census on industries in the year under review to communicate industrial information to external parties. However, no such census had been conducted.

4.2 Management Activities

The legal ownership of the land at Katubedda, Moratuwa where the Head Office of the Board is located, had not been vested in the Board and the values had not been brought to account from a long period.

4.3 Financial Management

The following observations are made.

(a) According to the budget of the Board, the provision for capital expenditure was Rs.45,000,000 and it was observed that procurement activities had not been planned in a timely manner so as to utilize the said amount during the year. Accordingly, out of the provision made for capital expenditure, a sum of Rs.19,280,501 had been utilized as recurrent expenditure. Even though a sum of Rs.6,500,000 had been allocated for constructions, a sum of Rs.2,784,253 had been spent for 08 construction purposes not mentioned in the Procurement Plan.

(b) Even though the total value had been paid to scrap iron suppliers as advances in the first instance itself, the relevant scrap iron had not been supplied during the specified period. Accordingly, a sum of Rs.3,249,428 had been retained in the hands of the suppliers as at 31 December 2015 without supplying materials.

4.4 Identified Losses

The Board had not properly calculated and remitted the contributions of the Employees' Provident Fund and the Employees' Trust Fund. As such, a penalty of Rs.39,965,665 had to be paid as at 31 December 2015.

4.5 Idle and Underutilized Assets

The equipment named Spectro Meter OES 5500 costing Rs.18,643,856 had remained in the stores of the Engineering Division in inoperative condition since the year 2012.

4.6 Staff Administration

The following observations are made.

(a) The staff of the Board comprises 714 and 227 employees were vacant as at 31 December 2015. Two posts of Director General, 04 posts of Director, 15 posts of Assistant Deputy Director which are the Top Management posts of the Board and 30 posts of Development Officer had been vacant for over a period of one year. Even though 94 posts of Business Promotion Officer had been approved, 86 posts out of those had been vacant for over a period of one year. Nine persons had been recruited on assignment basis for the posts of Electrical Engineer, Secretary to the Board, Deputy Director, Executive Director and Instructor without filling the above posts and a sum of Rs.430,000 had been spent each month as their allowances. It was observed as well that out of these posts, the posts of Instructor and Executive Director were not included in the Recruitment Procedure.

(b) Even though it was necessary to attach Business Promotion Officers island wide for peoplising the activities of the Board, at least even one Business Promotion Officer had not been attached to the District Offices of Kilinochchi, Nuwara Eliya and Polonnaruwa. However, 06 Business Promotion Officers instead of 05 had been attached to the District Office of Matara. Moreover, Management Assistant Officers exceeding the number, had been attached to the Regional Development Division located at the Head Office of the Board and to the District Offices of Galle, Puttlam and Ratnapura and even one officer had not been attached to the District Offices of Kilinochchi, Mannar and Kegalle.

(c) It was observed that taking disciplinary action against the officers of the Board, who are involved in frauds are slow. Accordingly, an officer involved in an irregularity in bullet cartridges, an officer involved in a cash misappropriation in the Technical Services Division and an officer accused of a transaction related to purchase of scrap iron from the Irrigation Office of Batticaloa had been interdicted from service from 09 September 2010, 19 December 2014 and 16 October 2012 respectively. Nevertheless, further disciplinary action had not been taken even by 31 December 2015.

(d) Contrary to Section 17(a) of the Industrial Development Board Act, No.36 of 1969, an officer had been appointed by the Minister of Commerce and Industrial Affairs by Letter No.116/ABD/IDB of 15 February 2015 for the post of Executive Director which was not included in the approved cadre of the Board.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Draft Annual Reports along with the accounts should be presented to the Auditor General within 60 days of closure of the financial year in terms of paragraph 6.5.1 of Public Enterprises Circular No.PED/12 of 02 June 2003, the Board had continuously delayed the presentation of financial reports. As such, the Draft Financial Statements for the year ended 31 December 2015 and the revised financial statements had been presented to the Auditor General on 22 June 2016 and 13 September 2017 respectively. According to paragraph 3.3 of Management Services Circular No.02/2015 of 09 December 2015, the due presentation of annual accounts to the Auditor General is a pre-condition in obtaining bonus. Nevertheless, a sum of Rs.4,042,375 was paid as bonus to the staff of the Board contrary to the provisions of the aforesaid Circular.

5.2 Procurement Plan

It was observed that the capital requirements of the Divisions of the Board had not been separately identified in the Procurement Plan relating to the year under review.

5.3 Budgetary Control

Even though Annual Budgets had been prepared separately by each Division of the Board, action had not been taken to prepare a Budget for the Board and to obtain approval of the Board of Control.

5.4 Tabling of Annual Reports

According to Finance Act, No.38 of 1971, the Annual Report should be tabled in Parliament within 10 months of lapse of the relevant year. However, the Annual Reports for the years 2013 and 2014 had not been tabled in Parliament even by 30 June 2017.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Financial Control	(i) Non-presentation of bank reconciliation statements before the 15^{th} day of the next month.
	(ii) A significant period ranging between the dates of deposit of cash and issuance of receipts.

	(iii) Failure in maintaining the accounting system so as to identify the balance recoverable from certain suppliers as at the end of the year and non-supervision of data included in this accounting system by a responsible officer.
	(iv) Efficient non-collection of documents by the Accounts Division relevant to financial transactions of different Divisions.
(b) Conducting Training Programmes	(i) Failure in organizing programmes targeted for achieving the objectives of the Board and in taking follow up action.
	(ii) Unavailability of a specific methodology in selecting resource personnel.
	(iii) Non-preparation of budget estimate relating to programmes.
(c) Leasing out Lands	(i) Unavailability of a methodology in leasing out lands and buildings owned by the Board.
	(ii) Failure in signing lease agreements.
	(iii) Failure in taking follow up action on industries for which lands had been provided on lease basis by the Board in industrial estates.