

## **Industrial Development Board of Ceylon – 2016**

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The audit of financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. A detailed report in terms of 13(7) (a) of the Finance Act was issued to the Chairman of the Board on 22 November 2017.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2016 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**

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#### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Accounting Standard 02**

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- (i) Action had not been taken to compute the value of 1,500 kg of stocks of scrap, stored in the “Nawabima Store Premises” (Yard) and to adjust them in the financial statements.
- (ii) Provisions of Rs.3,048,557 made for slow moving and outdated stocks had been brought forward without being reviewed since the year 2013.

##### **(b) Sri Lanka Accounting Standard 11**

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The entire amount of Rs.15,617,194 granted as advances to five construction projects had been brought to account as work-in-progress.

##### **(c) Sri Lanka Accounting Standard 20**

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Out of capital grants of Rs.45,000,000 received in the year 2016, only expenditure on recurrent nature amounting to Rs.2,486,663 should be brought to account as income and as well adjustments for amortization be made for capital expenditure of Rs.37,635,995. However, the total capital expenditure of Rs.40,122,660 had been brought to account as income. Action had not been taken to make adjustments for amortization based on annual depreciation of assets, generated from the balance of capital grants of Rs.277,910,082 brought forward from preceding years.

#### **2.2.2 Accounting Policies**

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In introducing an Accounting Policy, it should enable the representation of the financial position in a transparent and fair manner. However, in the allocation of doubtful debts for debtors, a policy on allocating 10 per cent for debtors less than 05 years and 100 per cent for debtors older than 05 years in every year had been adhered to. As such, an additional doubtful debt amounting to Rs.3,573,133 had been allocated in the year under review as compared with the preceding year.

### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Action had not been taken to compute the value of stock items of which the value was not mentioned, received as grants from many years and to account them.
- (b) Despite having brought to account 07 fixed assets valued at Rs.67,437,864 to the revalued amount, the annual depreciation had been computed on the cost, thus indicating an overstatement in the depreciation of the year by Rs.1,333,284.
- (c) The ownership of total lands of 37 Acres in extent, on which the Head Office, District Offices and Centres are located, had not been legally vested and the value thereof had not been assessed and brought to account.
- (d) Expenditure on revenue of Rs.2,032,627 of the preceding year had been brought to account under other current assets instead of writing off against the profit of that year. As such, the current assets had been overstated by the same amount.

### **2.2.4 Unexplained Differences**

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The following observations are made.

- (a) In the comparison of the total outstanding balances recoverable from industrialists as at 31 December 2016 with reports and financial statements of the Industrial Estate Sector, a difference of Rs.16,268,718 was observed.
- (b) Even though the balances of Ledger Accounts on Lands and Lands Development as at 31 December of the year under review amounted to Rs.676,552,750 and Rs.141,320,244 respectively, according to financial statements, those balances had been Rs.767,367,687 and Rs.50,156,899, thus indicating non-reconciliations of Rs.90,814,937 and Rs.91,163,345 respectively.

### **2.2.5 Lack of Evidence for Audit**

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The following observations are made.

- (a) The revaluation of the assets of the Board had been carried out in the years 2014 and 2015 by an officer employed in the Board, who is professionally qualified in the valuation of property. However, the Schedule of the revalued assets and information on assessed value of each asset revalued as at 31 December 2016, had not been made available to Audit even by 30 October 2017.
- (b) A detailed schedule on the balance of Rs.3,072,949 included in the sundry creditors balance older than 05 years, had not been made available to Audit.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Trade and other receivable balances as at the end of the year under review totalled Rs.66,517,993 and out of that, the debtors balance amounting to Rs.39,436,868 older than 05 years, had not been recovered. Moreover, the creditors balance older than 05 years amounted to Rs.28,955,811 and action had not been taken to settle them.
- (b) The employees' loan balance that remained unrecovered since the year 2014 amounted to Rs.743,533.
- (c) Out of the balance amounting to Rs.14,457,340 of prepayments and advances granted to employees, the balance of Rs.8,022,004 had been deducted and shown as an allocation since the year 2014.
- (d) Advances of Rs.4,317,934 paid to suppliers in the purchase of scrap iron from the year 2009 to the year 2015 had not been settled even up to 31 December 2017.
- (e) A sum of Rs.16,058,303 was recoverable as at 31 December 2016 as lease rentals from 228 industrialists who had established industries in 12 Industrial Estates.

### 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances with laws, rules and regulations were observed.

<b>Reference to Laws, Rules, and Regulations etc.</b>	<b>Non-compliance</b>
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (a) Financial Regulation 571(2) | Action in terms of Financial Regulations had not been taken on refundable deposit balances of Rs.2,767,275 older than 02 years.   |
| (b) Financial Regulation 757    | Action in terms of Financial Regulations had not been taken on surpluses and deficits amounting to Rs.395,754 and Rs.332,028 respectively revealed according to the Boards of Survey carried out for the year 2016. |
| (c) Financial Regulation 770    | Action in terms of Financial Regulations had not been taken on 38 items of Goods which were condemned as unserviceable articles in the Annual Boards of Survey in the year 2015.                                    |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Board had been a deficit of Rs.30,029,583 as against the surplus of Rs.27,259,111 for the preceding year, thus indicating a deterioration of Rs.57,288,694 in the financial result of the year under review as compared with the preceding year. The decrease in recurrent grants by Rs.10,750,000 and income from sales and services by Rs.44,720,265 and the increase in the administrative expenditure by Rs.29,945,023 as compared with the preceding year, had been the main reason for the above deterioration.

An analysis of financial results of the year under review and 3 preceding years revealed that the deficit of Rs.84,728,727 of the year 2013 had become a surplus in the year 2014 and it had increased to Rs.27,259,111 in the year 2015. However, it had deteriorated to a deficit of Rs.30,029,583 in the year under review. However, after readjusting employees' remuneration and depreciation for non-current assets to the financial result, the contribution which was Rs.68,532,050 in the year 2013 had continuously improved and become Rs.142,949,647 in the year 2016.

### **4. Operating Review**

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#### **4.1 Performance**

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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 District offices. The following observations are made in respect of the performance of the Board.

##### **(a) Marketing Division**

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Scrap materials project, obtaining sub-contracts, organization of exhibitions, providing marketing facilities for Lakkam and Lak Nipayum centres and conducting commercial and technical programmes for entrepreneurs etc. were the functions of the Marketing Division.

Following observations are made in this connection.

- (i) Even though the income from sale of scrap materials had been the main income source of the Marketing Division, the income which was Rs.103,970,263 in the year 2015 had decreased to Rs.43,044,099 by Rs.60,926,164 representing 59 per cent in the year 2016.

- (ii) No arrangement for the development of the Lak Nipayum Sales Centre had been included in the Action Plan. As such, the income from commission received for the year 2016 of the Lak Nipayum Centre amounted only to Rs.1,206 and the Lak Nipayum Sales Centre had been closed down since April 2017.

**(b) Regional Development Division**  
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Forty seven activities had been planned by this Division with a view to encouraging, promoting and uplifting the micro, small and medium scale businesses and industries and directing to the overseas market. However, there was no progress in 06 out of those activities and the progress of another 25 activities ranged in a low level between 2 per cent and 25 per cent.

**4.2 Management Activities**  
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The following observations are made.

- (a) Action had not been taken even by 04 December 2017 to distribute stocks valued at Rs.7,417,960 and Rs.774,416 purchased in the years 2007 and 2008 and in the year under review respectively with a view to distributing them to the entrepreneurs under the Villages Development Programmes.

**(b) Industrial Estates**  
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- (i) Action had not been taken to industrialize 59 plots of lands due to unauthorized occupants in 05 Estates since the years 1996 and 2000 and further action had not been taken to develop and hand over 71 plots of lands to industrialists in 07 Estates.
- (ii) The land on which the Baddegama Industrial Estate is located, belongs to the Land Reform Commission and an advance of Rs.500,000 had been paid in the year 2007 for vesting the said land and a sum of Rs.15,576 had been paid for surveying and preparing plans on 05 October 2007. However, that land had not been vested in the Board. Moreover, the non- vested Baddegama and Beliatta Industrial Estates of 1 Acre 2 Roods 0.5 Perches and 10 Acres 29.2 Perches in extent respectively had not been utilized for the intended purpose and as such, those lands have been colonized by now.
- (iii) Industrialists had resided on the land of 2 Acres 01 Rood 11.6 perches in extent, of the Karadeniya Industrial Estate, Galle owned by the Board, instead of carrying out their industries therein. Further, action had been taken to vest that land with the Divisional Secretary, Karadeniya on 29 August 2017 on the decision of the Board of Directors without proper authority.

#### **4.3 Utilization of Funds**

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The sum of Rs.25 million received from the Ministry in September 2016 for the acquisition of lands to the Panaluwa Industrial Estate, had been invested in a fixed deposit without being used for the intended purpose up to September 2017.

#### **4.4 Identified Losses**

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The following observations are made.

- (a) The Cost of Living Allowance included in the employees' remuneration had not been considered in the computation of contributions for the Employees' Provident Fund and the Employees' Trust Fund from the year 2006 to the year 2012. As such, the Board had paid a sum of Rs.6,469,791 as surcharges relating to that period.
- (b) A sum of Rs.43,257 had been paid as surcharges due to failure in making payments relating to annual motor vehicle license fees, gratuity and rates (assessment tax) on due date.

#### **4.5 Idle Assets**

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The following observations are made.

- (a) The building located at Miyunugama, Mahiyanganaya owned by the Board, had remained idle without being made use of for any purpose and a sum of Rs.714,248 had been spent in the year under review for obtaining the security service therefor.
- (b) Machinery and equipment had been purchased by spending Rs.1,283,500 from the Board, that was required to manufacture fruits allied products in the Nagahamada Neelawabedda building constructed by the Ministry for the implementation of Enterprises Villages Development Programme under the Ministry of Traditional Industries and Small Enterprise Development and peoplized on 06 March 2012. However, those equipment had remained idle without being made use of for any effective purpose from the said date up to the date mentioned in the report.

#### **4.6 Procurement Process**

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Purchase of Rubber Injection Moulding Machine valued at Rs.9,318,026 had been cancelled due to high quotations submitted in the first bidding. According to Guidelines 7.8 and 7.8.4 of the Procurement Guidelines, non-submission of a bid security should be considered as a major deviation. However, in the second bidding, the supplier who had submitted a photocopy of a cheque valued at Rs.182,520 which was written in favour of the Board for bid security, had been accepted as the successful bidder and the contract had been awarded to him.

#### **4.7 Staff Administration**

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The following observations are made.

- (a) Out of 725 approved cadre of the Board, 232 posts had been vacant as at 31 December of the year under review and out of those posts, 106 and 126 posts were executive and non-executive posts respectively.
- (b) Contrary to the Scheme of Recruitment, eight Business Promotion Officers and three Management Assistants had been recruited on contract basis from 01 December 2015. Even though their contract period had expired on 31 May 2016 according to the relevant agreement, the service period had been extended until further notice without terminating the service.
- (c) An officer to a post of Coordinator and three consultants not included in the approved cadre had been recruited from 20 January 2016 and a sum of Rs.83,069 and Rs.168,800 including monthly fuel allowance, salaries of drivers and telephone allowance had been paid to them respectively.
- (d) Thirteen officers had been appointed on acting basis and a sum of Rs.830,546 had been paid as acting salaries in the year 2016 due to failure in appointing officers for the vacant posts of the approved cadre. The acting period of these officers ranged between 02 years and 10 years.

#### **5. Accountability and Good Governance**

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##### **5.1 Presentation of Financial Statements**

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Even though the Draft Annual Report along with the accounts should be presented to the Auditor General within 60 days of closure of the financial year in terms of Section 6.5.1 of Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements for the year under review had been presented on 25 September 2017.

##### **5.2 Procurement Plan**

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Even though a Procurement Plan had been prepared in the year under review only for the provisions granted by the Ministry and the General Treasury, procurements made from income of the Board had not been included in that Procurement Plan.

##### **5.3 Budgetary Control**

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A budget for the year under review had not been prepared in terms of Sections 5.2.3 and 5.2.4 of Public Enterprises Circular No. PED/12 of 02 June 2003.



#### 5.4 **Tabling of Annual Reports**

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Action had not been taken to table the Annual Reports for the years 2013, 2014 and 2015 in Parliament in terms of Section 6.5.3 of Public Enterprises Circular No.PED/12 of 02 June 2003.

#### 6. **Systems and Controls**

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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.

##### **Areas of Systems and Controls**

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##### **Observations**

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(a) Financial Control	(i) Long delays in preparation of bank reconciliation statements.
	(ii) Efficient non-collection of documents by the Accounts Division relevant to financial transactions of different Divisions.
	(iii) Granting additional advances than the required amount for purposes.
	(iv) Receipt of cash after office hours and failure to deposit money in the safe in a duly manner at the shroff.
(b) Lease out of Lands	Failure in signing lease agreements legally for 31 buildings and 57 plots of lands relating to 09 Industrial Estates.
(c) Stock Control	(i) Maintenance of inventories for items of stocks without balances.
	(ii) Failure in taking action to eliminate damaged stocks from accounts.
	(iii) Differences between the balances of Ledger Cards and Bin Cards in respect of certain items of stocks.