Industrial Development Board of Ceylon – 2017

The audit of financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 2017 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 terms of Section 32 of the Standard, assets and liabilities should not be offset unless required or permitted by the accounting standard. Nevertheless, a sum of Rs.60,000,000 granted by the Ministry for the establishment of Robot Technology Centre in the years 2016 and 2017 and the assets worth Rs.57,195,219 purchased spending that money had been offset and the net balance of Rs.2,804,781 only had been stated as non-current liabilities in the financial statements. As such, non-current assets and capital grants as at 31 December of the year under review had been understated by Rs.57,195,219.

(b) Sri Lanka Accounting Standard 08

In terms of Section 42 of the Standard, an entity shall correct material prior period errors retrospectively by restating the comparative amounts presented for the period in which the error occurred. Nevertheless, without being taken action accordingly, comparative amounts of the year 2016 had been presented by making adjustments to the balances included in the audited financial statements of the preceding year. Further, the necessary disclosures on the prior period errors had not been made in the financial statements as required by Paragraph 49 of the Standard.

(c) Sri Lanka Accounting Standard 16

(i) In terms of Section 36 of the Standard, in the revaluation of fixed assets, the entire class to which that assets belong shall be revalued. Nevertheless, in the revaluation of lands, land improvements and buildings, assets worth Rs.39,163,047 and Rs.155,469,122 had not been revalued respectively.

(ii) Although revalued amount of Rs.65,735,659 applicable to the machinery and equipment, printing machines, office equipment, bicycles and computers had been brought to account, as depreciation had been computed on cost, depreciations relating to the year under review had been understated by Rs.881,401.

(d) Sri Lanka Accounting Standard 18

While demanded productions had not been handed over, productions of which invoice value was Rs.3,902,217 had been brought to account as sale of the year under review and the cost of Rs.2,225,726 relevant thereto had been brought to account as the cost of sale contrary to Section 14 of the Standard.

(e) Sri Lanka Accounting Standard 20

The capital grants balance amounting to Rs.1,964,238,178 stated in the financial statements as the capital grants over a number of years had not been written off gradually in terms of Paragraph 12 of the standard.

(f) Sri Lanka Accounting Standard 39

In terms of Section 46 (a) of the Standard, the employees loan given at interest rate less than the market interest should be recognized at amortized cost using effective interest method and the difference between market interest rate and the interest rate received for the loans had not been recognized as costs on employees.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Recurrent Grants of Rs.30,600,174 received for the implementation of 06 projects during the year under review and expenditure amounting to Rs.36,365,951 incurred on those projects had been adjusted through a Grants Account without being adjusted in the statement of comprehensive income.

(b) Retention money of Rs.3,062,748 deducted in making payments for the contracts in the year under review had not been brought to account.

(c) Value Added Tax amounting to Rs.1,644,239 paid during the year under review in relation to the contracts for the construction of internal roads, drainage system and the fence of the Buttala Industrial Estate had been brought to account under the work-in-progress.

(d) A sum of Rs.993,089 payable relating to the contract for clearing the land of the Negampaha Industrial Estate, Anuradhapura and the construction of fence thereof had not been brought to account.

(e) A sum of Rs.11,051,161 erroneously debited to the revaluation reserve as depreciation relevant to the preceding year had not been corrected even in the year under review.

(f) The value of stock items received as grants over a number of years had not been assessed and brought to account.

2.2.3 Unexplained Differences

The following observations are made.

(a) According to the records of the Industrial Estate Sector, the balance due from 13 Industrial Estates as at the end of the year under review amounted to Rs.15,277,733 while that balance was Rs.36,150,400 according to the records of the Accounts Branch. Accordingly, a difference of Rs.20,872,667 was observed.

(b) According to the financial statements, the stock value as at 31 December 2017 amounted to Rs.9,494,613 and the stock value as per the physical verification reports amounted to Rs.8, 594,832, thus observing a difference of Rs.899,781.

(c) Although the Value Added Tax receivable as at 31 December of the year under review amounted to Rs.51,363,240, it was Rs.29,408,699 according to the Value Added Tax Returns furnished to the Department of Inland Revenue. Accordingly, a difference of Rs.21,954,541 was observed.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to settle 04 balances totaling Rs. 1,304,303 continued to exist as other receivable assets from the year 2013 and the years preceding that year.

(b) Of the balances amounting to Rs.45,448,707 receivable from the Industrial Estates and the debtors, the balance of Rs.24,037,750 remained older than 05 years and 66 per cent or Rs.30,096,011 of the total dues contained rentals receivable from the Industrial Estates.

(c) Employees' advances amounting to Rs.928,370 continued to exist since a period before 5 years had not been settled.

(d) An advance amounting to Rs.5,402,511 paid for the purchase of scrap items pertaining to the period from 2009 to 2016 had not been settled.

(e) Creditors balance of Rs.3,072,949 payable to the industrialists of the Industrial Estates from the period before 05 years had not been settled by way of recognizing the relevant industrialists.

(f) Nation Building Tax amounting to Rs.2,761,479 relevant to the year 2016 and the preceding years and Rs.3,303,517 pertaining to the year under review had not been remitted to the Department of Inland Revenue.

(g) Action had not been taken to recover a sum of Rs.3,731,167 due from the Line Ministry from the year 2016 in respect of expenditure on the projects.

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

Action in terms of F.R. 189 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka had not been taken on the cheques amounting to Rs.209,398 that had become dishonoured in the years 2012 and 2014 and shown in the financial statements as at 31 December of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented for the year under review, the financial result of the Board had been a deficit of Rs.18,128,796 as compared with the corresponding deficit of Rs. 30,029,583 for the preceding year, thus indicating an improvement of Rs.11,900,787 in the financial result of the year under review as compared with the preceding year. Although the administrative expenditure had increased by Rs.50,973,200 during the year under review as compared with the preceding year, increase in the gross profit by Rs.64,515,423 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.84,728,727 of the year 2013 had increased up to Rs.27,259,111 in the year 2015. However, it had deteriorated to a deficit of Rs.30,029,583 and Rs.18,128,796 in the year 2016 and 2017 respectively. 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 improved up to Rs.213,500,294 in the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though an Action Plan had been prepared for the year 2017, it had not been prepared in accordance with the Paragraph 4 of the Public Finance Circular No.01/2014 dated 17 February 2014.

4.1.2 Functions and Review

(a) Although the Board had recognized 05 Key Performance Indicators (KPI) and prepared plans in accordance therewith, it was observed according to the following matters that the expected targets had not been achieved.

(i) It had been expected to increase income of 400 small scale and medium scale industrialists and generate 2000 employment opportunities during the year under review. Nevertheless, increase in the total income of 187 industrialists and generation of 675 employment opportunities alone had taken place only.

(ii) Although another expectation was to establish 125 business establishments by leasing out trade stalls and lands of the Industrial Estates and thereby generate 500 employments, 29 business establishments only had been initiated, thus creating 444 employment opportunities. It was observed that a large number of employment opportunities could have been generated provided all the expected business establishments were set up.

(iii) Although plans had been drawn to train 600 employees during the year under review, 198 employees only had been trained.

(iv) It was anticipated to export 25 productions of 100 industries under the performance indicators pertaining to the introduction of foreign market. Albeit, foreign market had been introduced only for 12 productions of 15 industries.

(b) Out of 11 activities of the Rubber Production Development and Service Centre planned for the year 2017, eight activities had not reached up to the expected targets.

4.2 Management Activities

The following observations are made.

(a) Although Rs.15,576 had been paid for the surveying activities and preparation of deeds of the land in which the Baddegama Industrial Estate was situated and a sum of Rs.500,000 had been paid as advances in the year 2007 for the acquisition of the above land, it had not been acquired even up to 31 July 2018.

(b) Although capital grants amounting to Rs.16 million had been received for the purchase of an equipment called "Foundry Plant" during the year under review, preparation of Letter of Credit only had been done by 12 September 2018 relating to the import of that plant.

(c) Even though decisions had been taken at the 05 meeting sessions of the Audit and Management Committees conducted in the year 2017 with regard to the matters such as unrecovered loan balances, recovery of advances paid to the employees and update of registers and books, those issues had not been settled.

4.3 Idle or Underutilized Assets

The following observations are made.

(a) Out of 64 machines directly contribute to the rubber production activities of the Rubber Production Development and Service Centre, 26 machines remained out of order over a number of years. Further, there were 20 unusable and dysfunctional equipment belonging to the Quality Control Lab.

(b) It had been intended to provide necessary trainings for 250 rubber based production industries by the Rubber Injection Moulding Machine purchased at a cost of Rs.9,318,026 during the year 2016 and thereby provide necessary samples for the productions of the industrialists. Albeit, 17 trainees only had been trained in the years 2016 and 2017 and only one institute had obtained an order and it was, too, remained at experimental level. Accordingly, the achievement of the above targets remained at a poor level.

(c) Stocks worth Rs.4,130,850 purchased from the year 2009 to 2017 to distribute among the entrepreneurs under the village development programme had remained undistributed even by 18 September 2018.

4.4 Staff Administration

The following observations are made.

(a) Out of 728 approved cadre of the Board, 249 posts had been vacant as at 31 December of the year under review and 05 out of the 12 posts of the top management level included in the above cadre had fallen vacant. Further, 69 officers had been recruited for 08 posts during the period from 2014 to 2017 on contract basis and daily paid basis and a sum of Rs.2,236,324 had been paid for them monthly.

(b) During the period from 2015 to 2016, officers had been recruited for 04 posts of Consultants which had not been included in the approved cadre and a sum of Rs.4,152,023 had been paid as allowances up to 31 December 2017.

5. Sustainable Development

Every Government institution should comply with the Letter No.NP/SP/SDG/17 dated 14 August 2017 of the Secretary to the Ministry of National Policies and Economic Affairs and the 2030 Agenda for Sustainable Development adopted by the United Nations. As the Board had not been aware as to how to act in regard to the activities under its purview, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though the Draft Annual Report along with the accounts should be presented to the Auditor General within 60 days from the 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 21 May 2018, after a delay of 03 months.

6.2 Procurements

Despite the recommendation of 03 minimum bids by the Bid Evaluation Committee according to the bids called for on 15 March 2016 relating to obtaining security services for the period 2016/2017, those bids had been rejected by the Procurement Committee without explaining any reason and bids had been re-called for on 18 August 2016. Accordingly, in the evaluation of bids, 03 bids had been rejected on minor reasons such as failure to present accounts records and another 10 bids had been rejected considering that all the relevant details had not been submitted despite being submitted the relevant details. The bid that had quoted prices at 19 in the order had been recommended as the prospective bidder by the Bid Evaluation Committee and it was questionable in audit. Further, the selected bidder had provided services only for a period of two months. When comparing the paid amount with the prices quoted in the original calling for bids, a sum of Rs.769,683 had to be overpaid for a period of two months.

6.3 Budgetary Control

According to Section 5.2.4 of the Public Enterprises Circular No PED/12 of 02 June 2003, the budget should be presented to the Board of Directors for the approval 03 months before the year following. Nevertheless, the Board had not presented an annual budget inclusive of Government contribution, earnings of the Board and the total expenditure during the years 2016 and 2017 and a cost estimate only had been prepared for the Treasury Grants.

6.4 Tabling of Annual Reports

The Annual Reports for the years 2015 and 2016 in had not been tabled in Parliament even by July 2018 in terms of Section 6.5.3 of Public Enterprises Circular No.PED/12 of 02 June 2003.

6.5 Unresolved Audit Paragraphs

The following observations are made.

(a) Although 1,500 kilograms of scrap items stocks stored at the Navabima Stores Yard had been physically verified, action had not been taken to make adjustments on that value in the financial statements.

(b) Although a sum of Rs.25 million had been received from the Ministry in September 2016 to acquire lands to Panaluwa Industrial Estate, those lands had not been vested even by the date of this report.

(c) Since the land occupied by the Head Office over a number of years and the lands in which regional offices and other centres are maintained in 10 districts had not been lawfully vested in, value of those assets had not been included in the financial statements.

7. 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.

Areas of Systems and Controls	Observations
(a) Financial Control	(i) Failure to submit bank reconciliation statements on due dates.
	(ii) Failure to collect the documents relevant to financial transactions of different Divisions by the Accounts Division efficiently.
(b) Debtors Control	(i) Failure to obtain balance confirmations.
	(ii) Failure to update documents.
(c) Stock Control	(i) Failure to update inventory.
	(ii) Failure in taking action to eliminate damaged stocks from accounts.
	(iii) Existence of differences between the balances of Ledger Cards and Bin Cards in respect of certain items of stocks.
	(iv) Failure to maintain registers properly by the Marketing Division and failure to carry out proper supervision on the available stocks when issuing goods.

	(v) Not properly stored the expensive stocks and not ensuring the security arrangements around the stores.
(d) Maintenance of Registers	Failure to update the Register of Losses and Damages.