

Industrial Development Board of Ceylon - 2018

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of comprehensive Income Statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Board's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is great than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the Board of Governors of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Comment of the Management	Recommendation
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(a) As per Paragraph 87 of Sri Lanka Accounting Standards No. 01, extraordinary items amounting to Rs. 996,420 had been included in the Comprehensive Income Statement even though an entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income.	Financial Statements would be presented according to the audit observation.	An entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income.
(b) Sri Lanka Accounting Standard No.16	This situation will not take place when accounting is done using sage software in the year 2020.	Fixed assets and liabilities should be recognized in the due period in the statement of financial position.
(i) Even though fixed assets and liabilities should be recognized by the date of accepting goods to the stores as per Paragraph No .07, the Goods had been brought to accounts based on the date of payment for goods. Accordingly, fixed assets and liabilities amounting to rS. 1,044,033 as at 31 December 2017 and amounting to Rs. 417,735 as at 31 December 2018 had not been recognized by the due period in the Statement of Financial Position.		

<p>(ii) In accordance with paragraph No. 36, revalued assets amounting to Rs.920,218,001 and unvalued assets amounting to Rs. 40,378,715 had been included within the development of lands and revalued assets amounting to Rs. 320,038,183 and unvalued assets amounting to Rs.160,605,637 had been included within building assets. an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Accordingly, the value of assets as at 31 December 2018 had been comprised of both the revalued amount and the cost.</p>	<p>Arrangements have been taken to rectify in presenting the Financial Statements for the year 2019.</p>	<p>When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.</p>
<p>(iii) Even though the fair value of the asset exceeds its carrying amount, the residual value of the asset should not exceed its carrying amount. Nevertheless, the accumulated depreciation of miscellaneous assets amounting to Rs. 412,145 had become Rs. 749,288.</p>	<p>This would be settled as per revaluation in the year 2019.</p>	<p>Residual value of the asset should not exceed its carrying amount.</p>
<p>(c) Property of industrial zones which earns rental income had not been separately recognized as investment property in the statement of financial position.</p>	<p>Financial statements will be presented in the year 2019 by inquiring the special opinion on the applicability of the Standard.</p>	<p>Property which earns rental income should be separately recognized as investment property in the statement of financial position.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comment of Management	Recommendation
<p>(a) Expenditure in the nature of capital amounting to Rs.791,535 had been brought to accounts as maintenance expenditure of Industrial Zones.</p>	<p>This would be rectified by the Financial Statements of the year 2019.</p>	<p>Expenditure in the nature of capital should be brought to accounts as capital expenditure.</p>
<p>(b) Work in progress amounting to Rs.42,340,204 and expenditure to be incurred on that by the last date of the year under review had not been stated in the statement of financial position.</p>	<p>Action would be taken by inquiring the special opinion before presenting financial statements for the year 2019.</p>	<p>Work in progress and the expenditure that should be paid in that regard should be included in the statement of financial position.</p>

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| (c) | Since accumulated depreciation amounting to Rs. 2,586,359 had not been removed from the register of building assets in transferring certain assets of building assets, the building assets had been added to the carrying amount by that amount. | The assets register for the year 2019 would be presented accurately. | The buildings asset register should be updated. |
| (d) | Sales amounting to Rs. 1,106,000 that had been invoiced pertaining to the year 2019 had been brought to accounts as sales income of the year under review. | Accounting should be carried out in terms of Accounting Standard 18. | Sales income of the year under review should be only brought to accounts. |

1.5.3 Unauthorized Transactions

Description of unauthorized transaction	Comment of the Management	Recommendation
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(a) A female officer who was over 60 years had been recruited to the Post of Director (Human Resources) of the Board without obtaining the approval of the Secretary of the Ministry in terms of the paragraph 2 (11) of the Public Administration Circular No.03/2018 of 20 February 2018 and salaries and allowances amounting to Rs. 2,989,008 had been paid to the Officer from May 2016 up to February 2019.	The action taken will be notified in the future as an investigation is being conducted in relation to this appointment under the Commission to Investigate Allegations of Bribery or Corruption Act, No. 19, of 1994.	The approval of the Secretary of the Ministry should be obtained in getting the service of a female officer over 60 years in terms of the Circular.
An officer who had not fulfilled qualifications mentioned in the approved Scheme of Recruitment had been recruited to the Post of Marketing Director in the year 2013 and Rs. 6,558,768 had been paid to the Officer as salaries and allowances from 26 June 2015 to 31 August 2019.	Appointments have been provided on the approval of the Ministry and the Board of Directors after checking the Degree and qualifications at the interview.	Officers who have fulfilled qualifications mentioned in the approved Scheme of Recruitment should be recruited to the service and qualifications fulfilled at the time of the interview should be made applicable.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Comment of Management	Recommendation
(a) Action had not been taken to recover balances related to a sum of Rs.11,530,544 to be received from various Divisions of the Board from the period from 2009 to 2014.	Action is being taken to settle balances.	Action should be taken to recover or to settle receivable balances immediately.
(b) Balances that should be recovered from Industrial Zones amounting to Rs.8,201,353 related to the period of 2009 to 2017.	It had been informed that action would be taken to settle outstanding balances immediately or to take action in accordance with agreements.	Action should be taken to recover the payable balances immediately.
(c) Action had not been taken to recover a total of Rs. 4,605,647 comprised of the Economic Service Charges, amount that should be received from the line Ministry, money that should be received from the other Departments and money receivable from the Kithul Sales Project.	It is problematic to find whether Economic Service Charges are accrued to the Board and adjusting money receivable from the Ministry through accounts for the year 2019 and reporting to the Board of Directors regarding the money to be received from the other Departments and money to be received from the Kithul Sales Project.	Action should be taken to immediately recover or to settle the balances that should be recovered.
(d) The balance that had not been settled for the period of 2009 to 2017 was Rs. 12,824,409 out of the prepaid amount of Rs. 32,035,643 as at 31 December 2018. An allocation had been made for a total of Rs.11,676,251 consisted of Rs.6,715,710 out of miscellaneous expenditure and Rs. 4,960,541 out of prepaid advances within these balances. Even though transactions are being made even by now with the Ceylon Electricity Board, the Board had not taken action to obtain scrap stocks for the prepayments made as scrap advances.	There is no adequate information in order to settle these balances.	Action should be taken to check the balances and to settle the balances.

1.6.2 Payable Accounts

Audit Observation	Comment of Management	Recommendation
(a) Action had not been taken to pay rates related to Rs. 12,566,609 that should be paid for property owned by the Board.	Arrangements have already been made to bring properties, which had been considered as public commercial and rates had been charged, under the category of public services.	Action should be taken to settle balances that should be recovered.
(b) Action had not been taken to settle the balances payable relating to a sum of Rs.6,347,911 brought forward from the years 2013 and 2016.	It was informed that the balance pertaining to Rs.195,132 has not been paid and the entries will be reversed after having looked into the relevant balance pertaining to Rs.3,751,347 while action will be taken on remaining balances as per the decision of the Board of Directors.	Action should be taken to settle the balances payable.

1.7 Non-compliances with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of Management	the Recommendation
(a) Financial Regulation 880	The cashier of the Lakkam Sales Centre had not given security.	It will be settled without delay.	Action should be taken in terms of the Financial Regulations.
(b) Paragraph 2 b of the Finance Circular No. 2015/3 of 14 July 2015.	Advances exceeding Rs.100,000 had been granted in 04 instances pertaining to conducting programmes of the leather product section.	Action will be taken in terms of the Regulation.	Action should be taken in terms of the Financial Regulations.

1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
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(b) Three fixed deposits totalling Rs.27,043,402 had been encashed during the year under review without the approval of the Board of Directors.	It has been encashed on approval of the Chairman.	Approval of the Board of Directors should be obtained.
(b) Inordinate savings were observed due to lack of adequate estimation in granting advances to Staff Officers and the savings ranged from 22 per cent to 86 per cent.	Replies were not made.	Estimates should be prepared accurately.

1.9 Information Technology General Controls

Audit Observation	Comments of the Management	Recommendation
Even though the “Sage” software had been used for accounting of the Board, it had not been connected to other divisions including the stores. As such, action had not been taken to efficiently carry out the storing process from the time of request for store items until handing over the same to the stores.	Comments have not been made.	Software connection should be supplied to every division and used its facilities to the maximum.

2. Financial Review

2.1 Financial Result

The operating result of the year under review had been a surplus of Rs. 8, 848, 528 as against the deficit of Rs.13,137,868 in the preceding year, thus indicating an improvement of Rs.21,986,396 in the financial result. The increase in sales income and Government grants had mainly attributed to the said improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

	2017	2018
	Rs.	Rs.
Income of scrap iron	159,591,517	325,738,660
Other Income	124,337,247	139,761,899
Total Income	283,928,764	465,560,559
Administration Expenditure	490,715,818	549,535,526

The total income of the Board had increased by 64 per cent as compared to the preceding year. Out of the total income amounting to Rs. 465,560,559, seventy per cent or Rs.325,738,660 had been the income from the sale of scrap iron while the contribution for the activities pertaining to the achievement of the main objective and key function of the Board had been at a weak level representing 30 per cent or Rs.139,761,899.

2.3 Ratio Analysis

	2017	2018
Fixed Assets Ratio	1:1:4	1:1:5
Gross Profit Ratio	34.2	30.59
Net Profit Ratio	(6.17)	0.08

Despite a Gross Profit Ratio of 30.59 per cent, the reason for Net Profit Ratio of 0.08 per cent had been the administration expenditure totalling Rs. 549,535,526. Nevertheless, the increase in amortization on Government grants as other income by Rs.16,691,220 and increase in recurrent grants by Rs.17,000,000 had been the main reasons for profit of the Board. The working capital of the year 2017 amounting to Rs.36,675,065 had decreased by Rs.4,285,413 up to Rs. 32,389,652 in the year 2018.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) When awarding the contract for obtaining security service, the company which submitted the second lowest bid had been rejected due to the failure in submitting the security licence and certificate of incorporation of companies. Therefore, the contract had been awarded to the company which submitted the third lowest bid and as a result, a loss of Rs. 1,803,100 had been incurred to the Board. If discussions were held with the institution which had submitted the second lowest bid, the loss could be minimized.	The bidder who submitted the second lowest price had not submitted the certified copies of the documents, thus he has been recommended as an unsuccessful tenderer by the Technical Evaluation Committee.	Action should be taken to minimize the disadvantages.
(b) As contributions to the Employees' Provident Fund had not been paid relating to the cost of living allowance during the period from 2006 up to July 2012, a surcharge of Rs. 4,313,194 had been paid in the year under review.	Statutory payments are made on time to avoid recurrence of a similar situation.	The relevant payments should be made on time.
(c) Payments had been made including Value Added Tax when purchasing scrap transformers. However, as VAT had not been charged with respect to transformers sold to the industrialists at a sum of Rs. 64,747,050, the Board had sustained a loss of Rs. 9,697,057 during the year under review.	VAT had been charged in the year 2018 only on the industrialists registered for VAT. Only one industrialist had been charged for VAT.	Registration for VAT is not mandatory for the recovery of VAT. As payments for VAT are made when purchasing, the tax, so paid, should be recovered at the time of sale.

3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The scrap metal disposed by the state institutions should be disbursed fairly in view of the betterment of small and medium scale industrialists. However, recommendation and approval of the Chairman had been granted to provide one industrialist with 41 per cent or 100,004 Kg out of 242,531 Kg of bronze disbursed in the year 2018 whilst 781 of the 1185 transformers purchased from the Ceylon Electricity Board had been given only to two industrialists including the aforesaid one whom the bronze had been given to.</p>	<p>Having been examined by an expert committee, issue had been made upon recommendation and approval of the then Accounting Officer of the Board.</p>	<p>Disbursement should be done fairly in view of the industrial development of the small and medium scale industrialists.</p>

3.3 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>a) Project on Robotic technology.</p> <p>I. After being approved by the Cabinet Decision, No. අමප/16/1424/723/039, dated 07 August 2017 to introduce the robotic technology under the objectives of, automation of the industries in Sri Lanka, increasing productivity, enhancing quality, minimization of human error, and assisting the industrial requirements, this Center had been established in a building owned by the Board. It had been planned to establish the Center under a five year plan with Government contribution of Rs. 80 million. As per the proposals of the Cabinet, the Center should be administered by a Board of Control comprising a 50:50 public – private partnership,</p>	<p>The Center has been assigned to the Ministry of Science, Technology and Research through the Gazette Notification. Hence, the Center can not be registered as a company administered by a Board of Control with public – private partnership, and further action can not be taken.</p>	<p>Recommendations of the Cabinet should be followed.</p>

and registered as a company. However, the Center had not been registered as a company even up to 31 December 2018, nor had the recommendations of the Cabinet been followed.

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| <p>II. A sum of Rs. 117,830,891 had been granted to the Industrial Development Board for capital and recurrent expenses by the Ministry of Industry and Commerce during the period from 2016 to 31 December 2018. The total expenditure amounted to Rs. 118,638,671 up to September 2019 (excluding VAT), whilst the sum further payable in regard of the commitments amounted to Rs. 24,526,958. A Cabinet approval had not been obtained, nor had a revised plan been prepared in that connection.</p> | <p>Action has been taken to request the Ministry for a sum of Rs. 75 million to be incurred on additional expenses with a view to continuing the project.</p> | <p>Approval of the Cabinet should be obtained on the Government contribution of Rs. 80 million and the revision of the plan relating thereto.</p> |
| <p>III. Four robots worth Rs. 40 million had been purchased and installed in April 2017. As the project had not been implemented, office equipment purchased during 2018 to the value of Rs. 11,606,580 had also remained idle even by 15 October 2019.</p> | <p>Assets remained idle due to non-implementation of the project.</p> | <p>The project should promptly be implemented under a general consensus between the Ministry of Science, Technology and Research, and the Ministry of Industry and Commerce.</p> |
| <p>IV. The amount estimated for the renovation of building in which the project had been launched, was Rs. 4.5 million, and a sum of Rs. 29,486,450 had been spent thereon. Furthermore, the rights of the land where the building had been located, were not taken over by the Board legally. As such, the Board could not create a suitable environment for such a specialized center before its establishment.</p> | <p>Estimation was done without selecting a specific location. Legal proceedings are taking place with respect to ownership of the land.</p> | <p>Action should be taken without exceeding the estimates. A suitable environment should be ensured for the project by acquiring the legal rights of the land.</p> |

- V. The approved cadre had been mentioned in the Letter, No. DMS/1840 of the Department of Management Services, dated 20 June 2018 relating to the project but the necessary staff had not been recruited. The post of Chief Executive Officer had not been included therein but an officer had been recruited to that post so as for the project to proceed in accordance with the Letter, No. PMO/01/ASR(CCEM)/2017/01 of the Prime Minister's Office, dated 08 September 2017. Approval had been granted for a period of 06 months inclusive of a monthly salary amounting to Rs. 725,000 together with transport allowance though, that person held the post for 12 ½ months from 15 November 2017 up to December 2018 thus receiving salaries and allowances totalling Rs. 12,035,025. The salaries and allowances paid for the period of 6 ½ months of officiating at the post sans approval, totaled Rs. 6,401,910.
- The Chief Executive Officer had been recruited properly through and interview. Recruitment of the other staff had come to a halt. A Cabinet Memorandum has been presented to extend the service of the Chief Executive Officer and for the salaries.
- The required staff should be appointed, and recruitments should be made only within the approved cadre. Payment of salaries made without approval should be recovered from the officers responsible.
- VI. A sum of Rs. 1,787,828 had been spent on consultancy firms and professional institutions by the Board relating to the registration of consultancy companies for human resources for the project, lawyers, preparation of articles of association, and preparation of a business plan. However, the Procurement Procedure had not been followed when obtaining the relevant services.
- An institution was selected for consultancy thus making procurements. Procurement Procedure should be followed.
- VII. This Center had been affiliated to the Ministry of Science Technology and Research through the Gazette, No. 2013/34 dated 28 December 2018. However, on 02 August 2019, two machines of CNC Mills
- Those machines had been installed in a building of the Engineering Division following decisions taken by the top level management and infrastructure facilities had been provided
- Action should be taken to promptly launch the project, and the assets should be utilized productively.

had been purchased and installed accordingly. for a sum of Rs. 35,788,924 relating to that project. It had been stated by the members of the Technical Evaluation Committee at the time of evaluating the specifications that expensive software and an expert engineer would be required to operate the machines otherwise the relevant machines would become non-functional. External to the “Nawabima” building in which the project had been implemented without providing the necessary software, infrastructure, and staff, those machines had been installed in a building belonging to the Engineering Division of the Industrial Development Board. The machines remain idle from the date of installation up to this day.

- (b) I Out of the total lands of the 18 functional industrial parks in extent of 275 acres, 173 acres had been disbursed among the industrialists. A certain extent therefrom could be allocated on the offices of the park, road networks and other constructions of the Board. However, 72 plots of developed lands equivalent to 10 acres and 20 perches remained to be further distributed among the industrialists. Accordingly, the extent of land being in use remained very low as compared with the extent acquired. Forty two of the 725 land parcels distributed, had been used for personal residences whereas 34 plots of developed land had been used for industries before such industries had been discontinued.
- The total extent of the lands was 275 acres, and 173 acres of land had been disbursed among the industrialists. Seventy two plots of land will be distributed in due course. The plots used for personal residences and where the industries had been discontinued, will be distributed at the request of the industrialists.
- The land acquired should be made use of optimally.
- II. Three industrial parks with assets worth Rs. 2,528,307 do not function at present under the ownership and administration of the Board. Adjustments will be made in the financial statements of the year 2019 with respect to the industrial parks not functioning under Action should be taken ensuring decrease in expenses. The industrial parks not

Generation of income had come to a halt many years ago at 04 industrial parks with assets worth Rs. 24,203,318. However, annual expenses totalling Rs. 1,507,735 had been incurred on those industrial parks in the year 2018. The expenditure in excess of income totaled Rs. 6,419,777 relating to 06 of the 14 industrial parks.

ownership and administration of the Board. Decisions will be taken on the unsuccessful industrial parks. Increase in the income has become limited.

functioning should be developed and provided for the industrialists.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
<p>a) A number of 289 toners valued at Rs. 2,070,379 had remained at the stores as at 31 December 2018. Of that, 219 toners valued at Rs. 1,421,416 were as old as 1-21 years. Those stocks of toners remained at the stores without being distributed.</p>	<p>Due to being a deficiency in the internal control, remedial action will be taken promptly.</p>	<p>Having decided on the required stocks, adequate number of stocks should be maintained at the stores.</p>
<p>b) The Plot, No. 15 of the industrial park, Horana in extent of 1 rood and 0.6 perch had been given on lease to an industrialist with effect from 28 April 2011 through the Lease Agreement, No. 254. The production process had been halted from 23 April 2014 on the grounds of repairs. The agreement had been terminated on 08 September 2015 due to discontinuation of production process and failure to settle the monies in arrears. Following the request made by the industrialist, the plot had again been handed over to the industrialist on 06 April 2016. As the said industrialist had not settled a loan obtained from the Bank of Ceylon, the lease rights had been taken over by the Bank. The said</p>	<p>The Bank of Ceylon is taking measures to transfer the lease rights thereof to the MDK Company. Once the transfer is over, action will be taken to establish the new industry.</p>	<p>The lease rights should be transferred thus action should be taken to promptly recover the lease rents in arrears.</p>

property remained underutilized even as at 31 December 2018 without being provided for another industrialist.

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| <p>c) As projects had not properly been evaluated and selected under the villages development programme and presentation for approval had been delayed, equipment worth Rs. 1,547,392 purchased from the sum of Rs. 3,051,889 received under the programmes, had remained undistributed among the beneficiaries even by October 2019. Action had not been taken to distribute among the industrialists the goods purchased during 2007-2016 to the value of Rs. 3,257,173.</p> | <p>Delay in the allocation of provision for the year 2018. Time had been fully allocated on the “Diviyata Udanaya” programme.</p> | <p>The beneficiaries should be selected and the goods purchased should be distributed promptly.</p> |
| <p>d) The coconut processing machine worth Rs. 334,475 purchased on 26 February 2018 out of the funds amounting to Rs. 800,000 received from the Ministry under the entrepreneurial villages and women’s development programmes, had remained undistributed even by October 2019.</p> | <p>Delay in the acquisition of a land for the establishment of a center to be used in common.</p> | <p>The items purchased should be promptly distributed.</p> |

3.5 Delays in Projects or Capital Works

Audit Observation

As estimates had been prepared without properly examining the boundary wall of the industrial park, Panaluwa with an area of 1650 square feet, the estimate valued at Rs. 20,763,350 approved by the Procurement Committee on 28 March 2017 had increased for 1,810 square feet up to Rs. 33,158,180. Due to delay in granting approval for the additional estimate and making

Comment of the Management

Due to reasons such as, revision of estimates from time to time by the Department of Buildings, and delays in releasing the provision of the Ministry, the constructions could not be completed.

Recommendation

Prior to commencement of the project, estimates should be prepared after a proper examination. Payments should be made promptly.

payment, this project scheduled to be complete on 08 April 2018 had temporarily been halted as at the date of this report.

3.6 Management of Procurements

Audit Observation	Comment of the Management	Recommendation
<p>The contract valued at Rs. 4,032,408 for partitioning the “Nawabima” building had been awarded to a private institution on 12 April 2018, and a payment of Rs. 2,685,128 had been made thus far. That work had not been executed in accordance with the conditions such as, providing a period of 21 days for national competitive bidding in terms of Guideline 6.2.2 of the Procurement Guidelines, signing contract agreements in terms of Guideline 8.9.1 (a), ensuring the availability of budgetary provision as per Guideline 8.7.1, providing certificates of completion in terms of Guideline 8.12.2, and preparation of total cost estimates in terms of 4.3.1 (a).</p>	<p>The Procurement Guidelines should be followed in order to avoid such issues.</p>	<p>Attention should specially be drawn on the conditions of the Procurement Guidelines.</p>

3.7 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>a) According to the Scheme of Recruitment of the Board, the post of Business Promotion Officer falls under junior management level. Approval of the Department of Management Services had been granted for 94 such posts. Nevertheless, based on the verdict returned by the supreme court with respect to Case, No. SC FR 64/2009, fifty five officers in the post of Business Promotion</p>	<p>It is stated in the verdict that those officers be positioned in the junior level or the middle level management. This issue will be solved through the proposed cadre restructure plan.</p>	<p>Approval of the Department of Management Services should be obtained prior to granting appointments.</p>

Officer had been positioned under the middle level management. Accordingly, a sum totalling Rs. 60 million had been paid as gross salary from the date of appointment on 23 June 2016 up to 31 December 2018 along with a professional allowance totalling Rs. 2,520,000 paid for the year 2018. Approval of the Department of Management Services had not been obtained for those posts.

b) An officer had been recruited in the year 2015 to the post of Consultant, a position not included in the approved cadre. A sum totalling Rs. 1,066,462 had been paid as salaries and allowances from that day. Not replied.

No recruitments should be made to the posts not included in the approved cadre.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation

Comment of the Management

Recommendation

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days from the closure of the financial year. However, the financial statements had been presented on 27 July 2019.

Not replied.

Circular instructions should be followed.

4.2 Internal Audit

Audit Observation

Comment of the Management

Recommendation

In terms of Section 38(c) of the National Audit Act, No. 19 of 2018, the Chief Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be furnished to the Auditor General as per Section 38(2). Nevertheless, no information was made available to the Audit to ensure that reviews had been carried out in that manner.

Not replied.

The National Audit Act should be followed.

4.3 Annual Action Plan

Audit Observation

Comment of the Management

Recommendation

The Action Plan had not been prepared ensuring the achievement of all the objectives of the Board. Fulfilling the main performance indicators remained weak. The Action Plan had been prepared with emphasis on the conduct of programmes, but no attention had been brought on state-of-the-art technology and improvement of technical methodologies.

Not replied.

Action should be taken to ensure the achievement of the objectives of the Board.

4.4 Budgetary Control

Audit Observation

The annual budget had not been prepared by including all the income from the Treasury, Ministry, and the Board along with capital recurrent expenses. However, a capital budget had been prepared in respect only of the sum amounting to Rs. 65.4 million received from the Treasury.

Comment of the Management

Not replied.

Recommendation

The annual budget should be prepared including the overall income and expenditure, and the approval of the Board of Directors should be obtained thereon.

4.5 Matters of Contentious Nature

Audit Observation

The Board had called for quotations for the removal of scrap vessel, A 520 belonging to the Sri Lanka Navy. The contract had been awarded on 02 January 2015 to the Mahaweli Iron Center that had come up with the highest bid of Rs. 18,341,640. The Sri Lanka Navy had handed over the vessel to the Board after one year from the date of awarding the contract on 18 March 2016. As such, the procurement had been made with no legal ownership and monies had been obtained. By 28 April 2016, removal of the vessel had been completed though, the performance security of Rs. 1,620,000 obtained from the buyer had not been released even by October 2019. A case had been filed before the High Court in that connection on 15 December 2016. As no formal agreement had been entered into by including statements relating to the resolution of conflicts in terms of Guideline 5.4.14 of the Procurement Guidelines, it was observed that additional costs would be incurred in the future.

Comment of the Management

As a case had been filed at the Commercial High Court of the Western Province in this connection, no replies can be provided. Agreements will be entered into in the future by including statements on conflict resolution in terms of Guideline 5.4.14 of the Procurement Guidelines.

Recommendation

Procurement should be made with legal ownership. The Procurement Guidelines should be adhered to.