

## **Industrial Development Board of Ceylon - 2019**

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### **1.1 Opinion**

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The audit of the financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, 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 report 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 2019, 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 Qualified Opinion**

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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 the Financial Statements**

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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 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.

## 1.4 Audit Scope

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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 skepticism 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 higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained 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 to cease to continue as a going concern.
- Evaluate the 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 governing body of the Board ;

- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources 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

|            | <b>Non-compliance with Reference to the Relevant Standard</b>  | <b>Comments of the Management</b>   | <b>Recommendation</b>  |
|------------|--|---|--|
| <b>(a)</b> | Although the assets should be re-valued at once as a class in terms of Paragraph 36 of Sri Lanka Accounting Standards No. 16, only a portion amounted to Rs. 1,206,510,768 from land improvements and buildings valued at Rs. 1,356,028,570 of the investments and non-investment of the Board had been re-valued. | The financial statements for the year 2020 will be submitted as per the Standard.   | At the time of revaluation of assets, the entire asset class should be revaluated. |
| <b>(b)</b> | Although the depreciation of an asset should entirely be made by the end of the relevant period, as per Paragraph 52 of Sri Lanka Accounting Standards No. 16, the net value of assets purchased from 2004 to 2008 amounted to Rs.5,035,965 had been stated as Rs.1,018,290 in the accounts.                       | The necessary corrective entries including cumulative values will be accounting for by the year 2020 expeditiously and that the financial statements are presented in accordance with the Standard. | The residual value of an asset should not exceed its carrying value.               |

## 1.5.2 Accounting Deficiencies

| Audit Observation  | Comments of the Management  | Recommendation   |
|--|---|--|
| <p>(a) Transfers had been made to the correct asset accounts during the year under review to remove the errors occurred in the classification of assets. Therein, although the net value of machinery which costs Rs. 4,241,896 amounted to Rs. 2,094,150 as Rs. 852,004 and the net value of furniture equipment which cost Rs. 875,500 amounted to Rs. 858,632 had been stated as Rs.437,750 in office equipment. Accordingly, the net value of the office equipment account had been understated by Rs. 1,663,028 .</p> | <p>The confusions arose in submission after the relevant transfers due to the non-receipt of a detailed schedule and the fact that the assessed values of each asset are not known separately and this will be rectified by the financial statements 2020 .</p> | <p>The Register of Assets needs to be updated.</p>                     |
| <p>(b) The annual depreciation of Rs. 4,575,000 had been calculated for the industrial estate land, which was re-valued at Rs. 91,500,000 as at 31 December 2014 . Actions had not been taken to remove that note up to now as the depreciation is not being made on the land.</p>   | <p>This will be rectified by the financial statements 2020 .</p>  | <p>Depreciations for lands should not be made.</p>                     |
| <p>(c) Even though the value of the certified work as at the end of the year under review by the Engineering Division for the contract of the construction of internal road drains and fences in the Industrial Estate was Rs. 16,077,084 a sum of Rs. 16,591,875 had been accounted for as work in progress. Accordingly, the work in progress account had been overstated by Rs. 514,791 .</p>   | <p>The appropriate accounting remedy is the accounting for the value of the "work done" as per the final bill of the contractor.</p>  | <p>The accounts should be maintained for the certified work value.</p> |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

|     | <b>Audit Observation</b>  | <b>Comments of the Management</b>  | <b>Recommendation</b>  |
|-----|---|--|--|
| (a) | Out of the pre-paid advance amounting to Rs. 30,891,311 made for scrap metal and other purchases as at 31 December 2019, a sum of Rs. 13,050,627 could not be recovered from 2009 the year to 2018. A provision had not been made for a sum of Rs. 11,676.251 out of this amount. | Balance settlement activities are being carried out.   | Actions should be taken to recover or settle the balances receivable promptly. |
| (b) | Actions had not been taken to recover the balances receivable from the Industrial Estates amounted to Rs. 12,495,681 pertaining to the period of 2009 and 2017.   | It has been informed that the balance of the arrears has to be settled promptly or to act in accordance with the agreements. | Actions should be taken to recover the balances receivable promptly.           |

## 1.7 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

|     | <b>Reference to Laws, Rules, Regulations, etc.</b>                                    | <b>Non-compliance</b>   | <b>Comments of the Management</b>  | <b>Recommendation</b>   |
|-----|---|---|--|---|
| (a) | Paragraph 2 (11) of Public Administration Circular No. 03/2018 dated 20 February 2018 | An officer over 60 years of age had been recruited to the post of Director, Human Resources of the Board without obtaining the personal approval of the Secretary to the relevant Ministry, a sum of Rs. 2,989,008 had been paid as salaries and allowances from May 2016 to February 2019. | Since an investigation is ongoing under the Commission to Investigate Allegations of Bribery or Corruption Act No. 19 of 1994, the action which should have been taken by the Board will be informed regarding the appointment of the said officer and the allowances paid for this purpose. | The approval of the Secretary to the Ministry should be obtained in having the services of an officer over 60 years of age as per the circular. |

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|-----|---|--|---|--|
| (b) | Scheme of Recruitment of the Board approved in the year 2013  | of An officer who did not meet the qualifications mentioned in the approved Scheme of Recruitment had been enrolled to the post of Sales Director and a sum of Rs.7,206,363 had been paid as salaries and allowances from 26 June 2015 to 31 December 2019.  | Even though the probation period of this officer had ended , as the basic qualifications had not been fulfilled at the time of recruitment occurred the service confirmation was suspended and granting of salary increments have been stopped. | The officers who had fulfilled the qualifications mentioned in the approved Scheme of Recruitment should be recruited. |
| (c) | Scheme of Recruitment of the Board approved for the Year 2013 | Recruit an officer who has not fulfilled the qualifications mentioned in the approved Scheme of Recruitment has been recruited to the post of Director of Enterprise Development and paid a sum of Rs.9,221,341 had been paid as salaries and allowances from 01 January 2013 to 31 December 2019. | As the relevant qualifications had not been fulfilled by this officer, it has been impossible to confirm in his post and the annual salary increments have been given since 2016 .  | The officers who had fulfilled the qualifications mentioned in the approved Scheme of Recruitment should be recruited. |

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a deficit of Rs. 7,828,307 and the surplus as against for the preceding year was Rs. 3,464,789. Accordingly, a deterioration of Rs. 11,293,096 was observed in the financial results. The decrease in sales revenue and the increase in administrative costs had mainly attributed to this deterioration .

## 2.2 Trend Analysis in Major Income and Expenditure Items

|                     | 2019        | 2018        |
|---------------------|-------------|-------------|
|                     | Rs.         | Rs.         |
| Scrap iron income   | 241,855,519 | 325,738,660 |
| Other Income        | 141,692,121 | 139,761,899 |
| Total Income        | 383,577,640 | 465,560,559 |
| Administrative cost | 583,118,229 | 550,531,946 |

The total income of the Board had decreased by 18 per cent as compared to the previous year. Sixty three per cent of the total revenue of Rs. 383,577,640 that is Rs. 241,855,519 was the income from the sale of scrap metal and the contribution to the functions related to the main objective and the role of the Board had been at a lower level of 37 per cent or Rs.141,692,121 .

## 2.3 Ratio Analysis

|                     | 2019   | 2018    |
|---------------------|--------|---------|
| Current Asset Ratio | 1: 1.3 | 1 : 1.5 |
| Gross Profit Ratio  | 31     | 30.5    |
| Net Profit Ratio    | (2)    | 0.7     |

Even though the gross profit ratio remained unchanged as compared to the preceding year, the increase in administrative expenditure by Rs.32,786,283 had mainly attributed to be a minus value of 2 per cent in the net profit ratio.

## 3. Operating Review

### 3.1 Operational Inefficiencies

| Audit Obserbation  | Comments of the Management   | Recommendation   |
|--|--|--|
| (a) A centre to innovate Robot Technology had been commenced in a building of the Board by obtaining the approval of the Decision of the Cabinet of Ministers No. 16/1424/723/039 dated 07 August 2016 with the aim of introducing Robot Technology for the purpose of mechanization, enhancement of productivity, improvement of quality, reduction of human error, strengthening the industrial needs etc. From then, a sum of Rs. 133,033,293 had been spent up to 31 December 2019 including the installation of four robots | If this Project had not been handed over to another institution, it could have been achieve the desired objectives with the full contribution of the Industrial Development Board. | As the Project has been assigned to an another Ministry, a recommendation cannot be given. |

valued at Rs. 40 million in April 2017 .

However, the Company had not been registered by December 2018 as per the Decision of the Cabinet of Ministers, and the recruitment of required staff and the commencement of the Project had not been commenced. On the failure of this Project, it was handed over to the Ministry of Science and Technology by the Gazette Notification dated 28 December 2018 2013/14.

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|---|--|--|
| <p>(b) The CNC mill and lathe machine which had been purchased for the Robotics Technology Centre for Rs. 35,913,582 on Ministry funds, were installed outside the Centre building without proper acquisition in a building of the Engineering Division and had been utilized for the earnings of the Board. Actions had not been taken to transfer its ownership to the Ministry of Science and Technology.</p>  | <p>Use of assets for economic gain until they are physically removed will prevent those assets from becoming idle /inactive .</p>  | <p>The ownership should be taken over and included in the Register of Assets.</p>                                |
| <p>(c) It has been impossible to the Board to acquire ownership of the land about 1.2953 hectares in extent where the Board is located and 25 acres 09 Roods 186.5 perches of where Regional Office are located. Although there is a great deal of commercial value to this property, it had not been able to compute the value and include it in the financial statements of the Board even by now. Maintaining private business on 3/4 of the land on which the new building is located on the premises where the Head Office is located and the Board has not been able to recover any ground rent or building rent from them and it had failed to acquire the legal ownership of the land so far.</p> | <p>Since there is no legal ownership, no rent can be charged from the private businesses operating in the Nawabima Premises adjacent to the Head Office and the relevant activities on acquisition of the property is being carried out continuously .</p> | <p>The legal ownership of the land should be taken over and used for the productive activities of the Board.</p> |



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|-----|---|--|--|
| (d) | There are a total of 726 plots of land in the 18 colonies belonging to the Board and 72 plots of lands had not been allotted to industrialists as at 31 December 2019. These plots had remained in bare for several years. Out of the 98 plots allotted to industrialists in five colonies, 28 plots had been utilized for residential purposes.  | Bare land plots in Industrial Estates are being maintained in the expectation of providing plots of land for those industries until qualified industries are located.  | Actions should be taken to make maximum use of the acquired lands.   |
| (e) | Thirty plots of land in 07 colonies had been closed since 2008 and 2015 and those land plots had not been distributed to other industrialists by 31 December 2019 .   | Arrangements are being made to re-industrialize the residents or to exclude from residential use by now.   | Actions should be taken to distribute among industrialists.  |
| (f) | Out of the 18 colonies belonging to the Board, 9 colonies had incurred a loss of Rs. 5,608,802 in the year 2019 and there were only expenditures made in Boossa, Beliatta, Baddegama and Karandeniya was Rs.869,335 and no revenue whatsoever had been earned.  | That the establishment of Industrial Estates was the primary objective and that the return receives on investment for the colonies was not taken into consideration and to find out the facts of the depreciation expenses reported in the books and make notes to rectify the accounts. | Arrangements should be made to convert the colonies which incur losses, into profitable.                                       |
| (g) | The distribution of scrap metal to small and medium-sized industrialists had not been carried out on a fair basis as per the Guidelines on Scrap Metal Management-2013. Accordingly, the scrap transformers had been sold for Rs. 79,306,352 to industrialists by the Board in 2019 and out of this, 54.6 per cent or Rs. 43,262,400 to three industrialists including 22 per cent to one industrialist and the remaining 45.4 or Rs. 36,043,952 had been given to 08 industrialists. | A number of 568 scrap transformers valued at Rs. 70,069,800 have been sold among 09 industrialists under this Project for the year 2019.   | The scrap metals should be distributed among small and medium-sized industrialists on a fair basis in terms of the Guidelines. |

### 3.2 Idle or Underutilized Property, Plant and Equipment

| <b>Audit Observation</b>  | <b>Comments of the Management</b>   | <b>Recommendation</b>  |
|---|---|--|
| <p>A Rubber Injection Moulding Machine had been purchased in 2016 at a cost of Rs.9,318,026 with the aim of improving the quality of products of small and medium-sized industrialists, minimizing of waste, making efficient of the production process and reducing production costs. Trainings had been conducted only for 39 industrialists and technical advice had been provided only to 266 people from the year 2016 to 31 December 2019. Even though the samples had been provided to several institutions, the orders had not been received. Accordingly, the machine could not be used at a maximum efficiency.</p> | <p>This machine has been used as per the demand based on the desire of the industrialists to produce the goods and the discussions are being made to get the order.</p> | <p>Arrangements should be made to make maximum use of the machine.</p> |

### 3.3 Delays in Projects or Capital Works

| <b>Audit Observation</b>   | <b>Comments of the Management</b>            | <b>Recommendation</b>   |
|--|--|---|
| <p>The 04 contracts with the estimated value of Rs. 78,876,959 implemented by the grants received under the Ministry funds had been awarded to 03 government agencies and to one private contractor. However, those institutions had suspended the work without completing as scheduled.</p> | <p>That construction works were delayed.</p> | <p>Arrangements should be made to complete the construction works in consultation with the contractors.</p> |

### 3.4 Procurement Management

| <b>Audit Observation</b>  | <b>Comments of the Management</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>Since there was no time to call for tenders as per the decision made by the Departmental Procurement Committee held on 13 December 2017 to an estimated amount of Rs. 38,139,000 for the contract for the construction of the Gampaha District Office, it had been</p> | <p>Due to the change in the subject of construction, the subcontractor of the building department who had been constructing the building has resigned. A decision had</p> | <p>The construction work should be finalized in consultation with the contractors and plans should be drawn up to ensure that there are provisions prior to the</p> |

decided to get it done by the Department of Buildings. It had been recommended to construct the ground floor alone at a cost of Rs.11,656,000 (besides VAT and uncertain expenses) out of the estimate made available. Accordingly, although the contract had been handed over to the Department of Buildings on 19 December 2017, handing over of the contract to a private contractor by the Department of Buildings for a VAT free amount of Rs. 26,379,710 had delayed up to 21 January 2019 . Due to the decision taken by the Management of the Board to change the structure of the building, although an advance of Rs. 2,914,000 and Rs. 2,964,640 had been paid through bills and also 2 ½ years had elapsed since the tender was awarded, only a suitable foundation had been laid for the construction of a two-storied building so far. Likewise, the contract had been awarded to a government institution at a very high price without calling for tenders, even the Board did not have sufficient funds and a Memorandum of Understanding had also not been signed with the Department of Buildings.

been made by the Board to complete the remaining work on the ground floor in collaboration with the Building Department.

awarding the contract and that plans should be made as required.

### 3.5 Human Resource Management

| Audit Observation  | Comments of the Management  | Recommendation   |
|--|---|--|
| <p>(a) Although the post of Business Promotion Officer is a Junior Management Level post as per the Scheme of Recruitment of the Board, the Intermediate Management Level as Business Promotion Officer had been granted for the 55 officers based on Supreme Court Case No. SC / FR64 / 2009. Accordingly, approximately a sum of Rs. 117,895,454 million had been paid as gross salaries and</p> | <p>It has been stated in the judgment of the case as it should established at the Junior or Intermediate Management Level and that the issue would be solved through the proposed Staff Restructuring Plan.</p> | <p>Approval of the Department of Management Services should be obtained before recruiting for the posts.</p> |

allowances from the date of appointment of 23 June 2016 to 31 December 2019. The approval of the Department of Management Services for these posts had not been obtained even by June 2020.

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|---|---|---|
| <p>(b) Even though the approved cadre of the Board was 714, as a result of the staff from the year 2016 to 2019 was in between 482 and 534, the cadre had not been revised to the required number.</p>  | <p>Recruitments will be carried out after the removal of the circular of recruitment which was suspended by the Government.</p>   | <p>The cadre should be revised as per the requirement.</p>  |
| <p>(c) Actions had not been taken to fill the vacancies in the two Director posts of Administration and Planning since 2012 and 2018, respectively.</p>   | <p>Even though the interviews were conducted, recruitments could not be made and recruitments will be made after the removal of the recruitment circular suspended by the government.</p> | <p>Actions should be taken to fill the vacancies.</p>   |
| <p>(d) The permission had been given to release the Director Engineer to temporarily to a state-owned company from August 2019 despite there were 78 vacancies in the Engineering Division and at the instance of the engineering services could not be properly activated.</p> | <p>The services of the Director Engineer for Lanka Mineral Sands Company have to be further provided to that Company.</p>   | <p>Actions should be taken to fill the vacancies and the services of the Director Engineer should be obtained in full time.</p> |

### 3.6 Annual Action Plan

| Audit Observation  | Comments of the Management          | Recommendation   |
|--|-------------------------------------|--|
| <p>It was proposed to implement a Project on the development of existing manufacturing industries as per the Annual Report 2018 and it had been stated that it was planned to be implemented in two phases in the years 2019 and 2020 and developing of those industries by providing assistance to solve the problems faced</p> | <p>Answers have not been given.</p> | <p>All activities planned to be implemented during the year should be included in the Action Plan.</p> |

by the industry to 500 small and medium-sized industrialists at the District Level by providing assistance in the first year. However, this Project had not been included in the Action Plan prepared by the Board in 2019. Although the Project to buy and sell scrap metal project was the main source of income, which accounts for about 70 per cent of the total revenue, the Project was not included in the Annual Action Plan 2019 .