

Sri Lanka Institute of Biotechnology Company - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Biotechnology Company “Company” for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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

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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit's Responsibilities for the Audit of the Financial Statements

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 higher 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per paragraph 36(a) of Sri Lanka Accounting Standard No.02, the accounting policies for inventory measurement were not disclosed in the financial statements.	Although the company used the FIFO method for inventory calculation, it was not disclosed in the financial statements, which should have been included. Steps have already been taken to correct it.	According to the accounting standards, the necessary information should be disclosed in the financial statements.
(b) Except for paragraph 55 of Sri Lanka Accounting Standard No.16, the company applied a depreciation policy that did not depreciate fixed assets in the month of purchase and fully depreciated them in the month of disposal.	According to Accounting Standard No. 16, estimating the useful life of an asset is a matter of judgment based on experience. Accordingly, the management of the company has selected an appropriate depreciation policy in line with the standard to simplify the depreciation calculation for the respective assets and they have also made the necessary disclosures.	According to Accounting Standards, assets should be depreciated from the date they are already for use.
(c) As per paragraph 23 of Sri Lanka Accounting Standard No. 20, states that used vehicles, equipment and item received from government institutions should be accounted for at fair value. However, the company had valued those assets at the market value of Rs.43,595,732 in the financial statements.	In accounting, fair value is an impartial estimate of the potential market price of a good, service, or asset. The derivative considers objective factors, including production or replacement costs, market conditions and supply and demand facts. Accordingly, our company has considered these factors when calculating the value of the relevant assets.	According to accounting standards, the receivables should be recorded in the accounts at fair value.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The company had capitalized Rs.42,468,943 as land development cost, without any legally assigned land. Additionally, under a lease agreement, the amount of Rs.30,383,463 was recorded in the financial statements as work in progress - building renovations. However, the notes to the financial statements did not disclose that the company has own any land or building.	This value represents expenses for the purchasing office furniture and repairing the office premises. The process was ongoing in the year 2022 and the official handover had not occurred. Because the capitalization of the relevant capital expenditure should be scheduled for the year 2023, the expenditure's value is listed under current assets in the statement of financial position as work in progress.	The accounting notes should disclose specific items not represented in the accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 6.6 of the Operational Manual for State Owned Enterprises issued by public Enterprises No. 01/2021 dated 16 November 2021	A draft of the annual report must be submitted with the financial statements within 60 days after the end of the financial year. However the company had not submitted a draft of the annual report with the financial statements. According to the same section, the annual report should be presented in the Parliament within 05 months after the end of the financial year. However, the annual report for the year 2021 has not yet been tabled.	The Sinhala and Tamil copies of the 2021 annual report have been sent for translation and the 2022 annual report has also been finalized and forwarded for translation. The summary report has also been forwarded to the Ministry for observation.	According to the circular provisions, the annual report should be presented in parliament within 05 months after the end of the accounting year.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.144,338,431 and the corresponding loss in the preceding year amounted to Rs.50,206,031. Therefore an deterioration amounting to Rs.94,132,400 of the financial result was observed. The reasons for the deterioration are mainly increasing in salaries by Rs.29,533,849, building rent by Rs.47,334,400, laboratory establishment expenses by Rs.4,675,772 and expenditure on sanitary and security services by Rs.2,723,458.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Urban Development Authority had entered into an agreement to purchase 13.2 acres of Homagama Pitipana Aramawatta for Rs.743 million to establish the Biotechnology Park. The Ministry of Finance has already paid Rs.380 million for it. The remaining Rs.363 million has not been settled and ownership has not been acquired.	Procurement was made to purchase and the State Department's approval was received on 29.09.2022. The approval of the procurement committee has been received on 04.10.2022. Accordingly, the relevant expenses have been incurred pending due approval. The Urban Development Authority has handed over the land and granted permission to carry out development activities.	Arrangements should be made to obtain ownership of the land.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Consumables and chemicals worth Rs.10,983,725 were purchased during the year under review. However, only 1.2 percent of it was used, leading to unnecessary stock piling during the year.	At that time due to the restrictions on imports related to the prevailing country situation, there was a scarcity of the relevant chemicals in the market. As a result, the purchases were expedited. As a result, the company saved a significant of money by acquiring the materials at a much lower price than the current market value.	When purchasing in bulk, be aware of stock levels and make purchases.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The company maintains another rent-free office of 1500 square feet at the Green Agriculture Center in Rajagiriya. In the year 2022, this premise was used only for 11 rounds of discussions, including board meetings. The opportunity to use this building premise for any other productive economic purpose was lost. Additionally, 49 office equipment items and a printer worth Rs.1,715,000 received from the Ministry of Finance were underutilized in the office premises.	Several staff members of the institution perform their duties here and numerous business negotiations are conducted from this location. The equipment provided by the Ministry of Finance at the Rajagiriya premises are used for our corporate purposes, as mentioned above and is duly recorded in the inventory books using proper coding system. Efforts are underway to implement a new code system for all organization assets, addressing existing weaknesses.	Assets not used for productive purposes should be returned to the relevant parties.

3.4 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) The first phase of the Biotechnology Park establishment project was planned to be completed by December 2020, with the expectation of enabling the investors to commence their operations as soon as promptly. However, over two years after the company was founded, the task remains unfinished. Furthermore, there was no agreement with any investor.	On March 02, 2022, the Ministry of Finance requested the remaining amount (392 million) to complete the land to the Urban Development Authority. On April 04, 2022 the Ministry of Finance approved for obtaining additional provision. However, due to budget constraints, the Secretary of the Ministry of Education was directed to submit a cabinet memorandum to waive the remaining payment. Accordingly, the Cabinet Memorandum has been submitted to the Minister and we are awaiting a decision. Due to the unresolved land rights issue with the Urban Development Authority, it was not possible to carry out activities such as measuring land for investors and identifying construction areas were not possible.	Adequate measures should be taken for efficient goal achievement.

- (b) The company was established to reduce the cost of importing 10 biomaterials including insulin and growth hormones by acquiring the production technology from the International Center for Genetic Engineering and Biotechnology (ICGEB). However, a suitable background to achieve that goal has not been established.
- An amount of Rs.24,035,653.52 was paid to the National Water Supply and Drainage Board and an amount of Rs.17,975,600 was paid to the Electricity Board for the development of the park's infrastructure. Additionally, 380 million was paid to the Urban Development Authority for the land in 2018 and the remaining amount to be paid is 392 million.
- Adequate measures should be taken for efficient goal achievement.