

Industrial Development Board of Ceylon - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Industrial Development Board of Ceylon (“Board”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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, 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 Board 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 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 intends 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 of the Board.

1.4 Audit Scope (Auditor'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 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 Board's 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 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 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 governing body of the Board,
- Whether 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to Relevant Standard	Comments of the Management	Recommendation
(a) The useful life of assets should be reviewed at least every financial year as per Paragraph 51 of Sri Lanka Accounting Standard 16 on Property, Plant and Equipment and if the useful life differs from the earlier estimates, although it should be accounted for in accordance with Sri Lanka Accounting Standard 8, reviewing of useful life of property, plant and equipment fully depreciated by 31 December 2022 but currently in use cost at Rs. 470,023,622 had not been carried out and brought to accounts.	Activities on revaluation of the assets owned by the Board will be done from the year 2024 .	The useful life of the asset should be reviewed and necessary adjustments should be made as per the provisions of the Standard.
(b) Cess Fund remaining from the year 2016 and given under capital grants valued at Rs. 10,500,000 had not been	Amortization of this grant will be implemented from the year 2024 .	Amortization adjustments should be made as per the provisions of the

amortized as per Paragraph 26 or 27 of Sri Lanka Accounting Standard 20 .

Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The Estate debtor balance was Rs.22,192,934 as per the financial statements, and there was an unrecognized general balance of Rs.2,582,297 within that.	During the preparation of accounts for the year 2023, the difference was identified and necessary corrections have been made.	Balances should be identified and adjustments should be made accurately.

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
(a) Village Development Programme	2,722,356	-	2,722,356	The necessary accounting treatments have been initiated. by now.	Financial statement values and corresponding reporting values should be accurately adjusted.
(b) Nanwamu Srilanka Programme	5,117,669	-	5,117,669	The necessary accounting treatments have been initiated by now.	- do -
(c) Estate Arrears Revenue	22,192,934	19,091,044	3,101,890	It will find out how these balances are formed	- do -

(d) Estate water charge revenue	7,715,837	7,191,834	524,002	The errors have been identified and corrected.	- do -
(e) Testing income	683,115	1,348,406	665,291	This has been corrected in the year 2023.	- do -

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Comments of the Management	Recommendation
(a)	There was a balance of Rs. 6,050,081 pertaining to the year 2021 and previous years within scrap item payments in advance which had not been settled.	There are still the balances pertaining to scrap item payments in advance for the years 2021 and 2022 to be settled.	Actions should be taken to receive the relevant goods or to get money.
(b)	There were 07 outstanding balances amounted to of Rs 7,357,288 in other current assets from the year 2020 and, the Board had not taken steps to settle these even by the end of the year under review.	Necessary steps have been taken to settle the balances.	Actions should be taken to get settled the balances receivable.

1.6.2 Accounts Payable

	Audit Observation	Comments of the Management	Recommendation
	The value of 33 trade creditors balances amounted to Rs.12,238,482 and the value of 13 other creditors balances amounted to Rs.9,587,167 have been remaining from more than 2 years.	These balances have been settled by now.	Actions should be taken to settle the balances promptly.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Public Administration	The approval had been given to pay a monthly	The recommendation of the Board of Directors	Actions should be

Circular No. 28/2011 dated 12 December 2011	allowance of Rs.15,000 for officers belonging to the Sri Lanka Engineering Service from 01 January 2012 and although the approval of the Ministry of Finance should be obtained through the Secretary of the Ministry if allowances are paid to institutions that have not been approved to pay allowances by this circular, due to payment of full allowance without based on the service period from year 2018 for 12 officers on approval of Board of Directors, a sum of Rs.6,177,000 had been paid in excess of the approved allowance by the end of the year under review.	for the payment of an engineering allowance of Rs.15,000 has been submitted to the Secretary of the Ministry and the approval of the Secretary of the Ministry has been received for that. The said approval has been submitted to the Board of Directors and as per their approval, the respective allowance was paid to the Engineers of the Board.	taken in term of circular provisions.
(b) Paragraph 6.6 of the Operational Manual for State-Owned Enterprises of Public Enterprises Circular No. 01/2021 dated 16 November 2021	Although a copy of the Financial Statements and Draft Annual Report for the year under review should be submitted to the Auditor General within sixty (60) days after the end of the accounting year, the Board had submitted the financial statements for the year under review on 02 November 2023 that is after a delay of 08 months.	This will be corrected in the future.	Actions should be taken in terms of circular provisions.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a profit of Rs. 103,616,824 and the correspondence profit for the preceding year was Rs. 59,318,302. Accordingly, an improvement of Rs. 44,298,522 was observed in the financial result. Although the cost of sales had increased by Rs. 40,683,991 and administrative expenses by Rs. 68,914,484 in the year under review than

the previous year, increase of the government recurrent grants by Rs.39,650,000, total income by Rs.101,807,704 and bank interest income by Rs.9,142,997 as compared to that had mainly attributed to this improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs. 52,628,070 had been stated as advance receipts from debtors within the trade and other creditors balance and it was revealed that this balance was generated due to the failure of updating the system properly.	All relevant information has been updated.	Actions should be taken to update the system.
(b) From scrap copper which was removed from Wimalasurendra Power Plant and purchased by the Kandy District Office in the year 2022, the metals valued at Rs. 3,754,298 had not been received by the Board. Further, actions had not been taken so far to recover the money or receive the goods.	They have been informed in writing to settle the relevant value to the Industrial Development Board of Ceylon.	The institution should take actions to recover the amount receivable or receive the goods.
(c) Even though the National Crafts Council had given 3 machines valued at Rs 3,850,740 to the Matara workshop belonging to the Industrial Development Board of Ceylon in the year 2021, it was observed during the on-site inspection conducted by the audit in March 2023 that the works on the other 2 machines had not been completed except for the machine valued at Rs. 351,000 for pulling cane from the forest. The works on these three machines had not	Necessary arrangements will be made to deliver those machines as soon as possible.	Actions should be taken to complete the work orders undertaken at due time.

been completed and handed over to National Crafts Council even by the end of January 2024 .

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>There are 733 plots in the 16 industrial estates owned by the Industrial Development Board and out of which , as the 52 plots have not been distributed to the industrialists, it had remained unused for several years. Further, 23 plots of land in 05 industrial estates were used for private residence. A number of 29 factories in the estates were closed non-functioning as at 31 December 2022, and actions had not been taken to distribute them to other industrialists.</p>	<p>There are no vacant plots in the main industrial estates of the Board such as Ekala, Pallekele, Horana, Pannala, Panaluwa. The number of vacant plots in Phase 02 where the development works have been started in the year 2019 in Negampaha and Achchuweli Industrial Estates, is 30. There are 11 vacant land plots in Kotagala and Mihintale Estates. Necessary publicity activities are being done to transfer these plots to new investors.</p>	<p>Actions should be taken to distribute the plots of lands to industrialists and establishment of productive industries</p>

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although there were 34 unusable machines and other equipment which are more than 11 years old as at 31 December 2022 in the Engineering Division workshop, actions had not been taken to remove these items from the Division or take any other appropriate action. Similarly, on</p>	<p>The unused machines and parts of the factory which are more than 11 years old have been segregated into lots and actions will be taken to determine the prices of those lots and auction very soon. There is a fault in the Boring</p>	<p>Actions should be taken to remove unusable and inactive equipment.</p>

the absence of operators for 04 machines namely Boring Machine, Electrical Discharging Machine, Die Sinking Machine and Power Hammer for Black Smithy Work where there is a demand for outside works such as reaming large holes, enlarging small holes, cutting metal pieces, etc. had remained inactive for more than 11 years.

(b) A rubber injection moulding machine had been purchased in the year 2016 for an amount of Rs.9,318,026 with the aim of the factors such as to improve the quality of rubber-related products to Peliyagoda Rubber Development and Service Centre, reduce wastage, increase the efficiency of the production process and reduce the cost of production, introduce and encourage the use of small and medium scale industries. Only 328 trainees had been trained since the date of purchase and, this machine had remained inactive at the engineering workshop of the Board from the year 2020 even the date of audit 2023 .

(c) The approval had been given by the Decision of the Cabinet of Ministers No. CMP/16/1424/723/039 dated 17 August 2016 to the establishment of a centre of excellence for robotics with the contribution of the government and the Nawa Bima Business Incubation Centre of Industrial Development Board of Ceylon had been selected for that. About Rs. 40 million had

machine, Electrical discharging machine in the workshop and there is a shortage of suitable trained workers for that. Further, there is not much economic benefit in employing skilled workers because of the repair works of those machines is very expensive.

The injection moulding machine installed in the Rubber Goods Development Division has now been taken to the Engineering Division of the Head Office. It will be renovated and used for the production of automobile spare parts in the future.

Although we have tried to establish the centre of excellence for robotics, this centre was under different Ministries and currently the ownership of this centre is not with the Board.

However, we are in the process of repairing these robots and making them in work furthermore.

Arrangements should be made to use the machine effectively.

Actions should be taken to quickly restart the project and use assets effectively.

been spent for the construction, repair and renovation of the ground floor and second floor of a new building with 5 rooms. Similarly, robotic machinery valued at Rs. 35 million purchased for this project had been installed in this Centre in 2018 and 2019. Even though the executive officer who had been hired to implement this was paid Rs. 725,000 per month from September 2017 to October 2018, totaling Rs. 11 million as salary and allowances, the necessary staff had not been recruited and the works thereon had not started. Due to failure of this, although this Centre which was under the Ministry of Industry had remained under the Ministry of Technology by the year 2023, the 15 air conditioners installed here and the area of about 7200 square feet as well as the installed machinery had remained in idle for over 6 years according to the field inspection conducted in October 2023. However, although this project had been commenced with the aim of encouraging, improving and supporting the development of Sri Lankan industries, it had not been fulfilled up to now.

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| <p>(d) There were 64 rubber related machinery in the Peliyagoda Rubber Goods Development and Service Centre and out of which, 26 machines were inactive from 1 year to 37 years and the compressor valued at Rs. 85,560</p> | <p>Arrangements will be made to refer to the Board of Survey Committee and appoint an Advisory Committee to dispose of the idle machine parts and spare parts of those</p> | <p>Actions should be taken to bring unused machines into use and dispose idle machines.</p> |
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was kept unused in its packaging since 2017. Furthermore, 17 types of raw materials and 284 types of machine spare parts had remained in idle without being used for a period of 1-17 years.

- (e) Providing 12 machines valued at USD 101,130 and goods valued at USD 1167.44 to the Board in the year 2020 by the UNIDO and installing them in the Laksala building and the bamboo wood training centre had been temporarily started. Due to the training centre building was handed over to the National Crafts Council in September 2022, as the machines and equipment were removed and set in a building in the Katubedda Nawa Bima premises, they had remained in idle even by January 2024.

machines and unused raw materials from the Division.

As the replacement takes a long time in cases where the existing compressor that is very old is out of order, purchase has been done on the supervision and approval of the then Divisional Engineer and Chief Engineer Director. This machine is used when necessary and then has kept for future use.

Due to the transfer of this advanced training institute to the National Crafts Council, the machinery has been set in a building in Katubedda Nawa Bima premises in May 2023. Legal rights of this Nawa Bima premises have not been fully transferred to our Institute and due to the fact that the case has been filed by now, there is a delay in the building repairs and installation of the machines.

However, in the next few days, it has been planned to carry out the necessary activities and install the machines and conduct training programmes.

Arrangements should be made to achieve the objectives of the project promptly, utilize the assets effectively and start the training centre promptly.