Industrial Technology Institute - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Industrial Technology Institute ("Institute") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 presented in 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 Institute as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 Public Sector Accounting Standards, and for such internal control as management determines 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Institute's financial reporting process.

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

1.4 Audit Scope

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 errors, 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute'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 Institute'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 Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;

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

1.5 Audit Observations of the Preparation of Financial Statements
1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	Assets and liabilities shall not be offset in terms of Paragraph 48 of the Sri Lanka Public Sector Accounting Standard 01. However, payable balances totalling Rs. 35,394,704 had been offset to debtors, whilst sundry debtors had also been offset to the sundry creditors' balance of Rs. 1,398,218. As such, the current assets and current liabilities had been understated by Rs. 36,792,922.	Those balances were the receipts of debtors and advance balances, and they had not been offset. Those values have been shown through Account Note No. 18 A and 18 B. The value of debtors' balances for the year under review has been shown correctly.	Assets and liabilities should not be offset and shown separately in terms of Sri Lanka Public Sector Accounting Standards.
b)	According to Paragraph 31 of the Sri Lanka Public Sector Accounting Standard 05, the effects of changes in exchange rates arising under financial items should be recognized either as surplus or deficit with respect to the period in which such difference arose. Nevertheless, the exchange loss of the dollar savings account, the balance of which amounted to Rs. 7,333,133, had been deducted from the other operating income of the year under review. As such, the	Corrective measures will be taken as per the Standard.	The effects of changes in exchange rates arising under financial items should be recognized either as surplus or deficit with respect to the period in which such difference arose in accordance with the Standards.

	revenue and expenditure had been understated by the same amount.		
c)	The balance of 76,655 Euros existed as at the end of the year under review in the deposit account the transactions of which were performed using Euros, had been shown to the exchange value at the time of performing transactions rather than being valued at the exchange rate as at that date in terms of Paragraph 43 (a) of the Sri Lanka Public Sector Accounting Standard 05. Accordingly, cash and cash equivalents had been overstated by Rs. 2,599,041.	This value had been brought to accounts by mistake.	The balance in deposit accounts on which transactions are performed using foreign currencies, should be valued at the exchange rate as at the end of the year under review as per the Standard.
d)	According to Paragraphs 39-43 of the Sri Lanka Public Sector Accounting Standard 08, the contingent assets should be disclosed without being recognized in the financial statements. Nevertheless, the sum of Rs. 13,674,801 receivable from 20 officers who had breached the bonds with the Institute, had been brought to accounts as receivable balances. Furthermore, the sum of Rs. 8,474,545 recovered for violation of agreements, had been credited to a fund named Staff Activity Fund without being remitted to the Treasury.	Receivable balances and an account for allocating provision thereon had been shown in the financial statements. Action will be taken in due course as per the Standard to make disclosures, and correctly account for the funds received from the officers who breached agreements.	Contingent assets should be disclosed in the financial statements without being recognized as assets in terms of the Standard. Furthermore, the funds recovered for violation of agreements should be remitted to the Treasury.
e)	According to implementation guideline 08 in the appendix of the Sri Lanka Public Sector Accounting Standard 10, the revenue of scientific and technical projects should be recognized considering their status of completion. However, without doing so, the cost of Rs. 34,802,114 incurred on such projects, had been recognized as work in progress under assets.	Action will be taken to recognize the status of completion of research projects as revenue and account for accordingly as per the Standard.	Revenue should be recognized considering the status of completion of the scientific and technical projects that have not been fully completed, as per the Standard.

f)	Treasury grants amounting to Rs. 94,000,000 received in the year under review, had not been recognized as an income received from non-exchange transactions in terms of Sri Lanka Public Sector Accounting Standard 11. Instead, the amount had been credited to the accumulated fund.	Only the financed value should be adjusted to the revenue as per the Standard. Accordingly, the value financed through capital grants in the year under review has been adjusted to the revenue through the Note No. 5A1.	The capital grants received from the Treasury, should be recognized as a revenue from non-exchange transactions as per the Standard.

1.5.2 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
a)	An income of Rs. 3,842,254 and the cost thereon had been recognized as expenses relating to the supply of services among each divisions of the Institute. However, the accounting policy in that connection had not been disclosed in the financial statements.	This value had been recognized through the supply of services among each divisions of the Institute, and it does not increase the profit.	The accounting policy along with the accounting standard relating to the recognition of supply of services among each divisions of the Institute, should be disclosed in the financial statements.
b)	The interest income of Rs. 30,038,526 for the year under review relating to 14 fixed deposits and 02 other deposits, had been understated by Rs.1,915,787 thus showing Rs.28,122,739 in the accounts. Furthermore, the interest income receivable relating to the aforesaid 14 fixed deposits by the end of the year under review amounted to Rs. 5,485,684, but that balance had been shown as Rs. 19,157,057. Accordingly, current assets had been overstated by Rs. 13,671,373. The interest income for the year relating to the balance of Rs. 26,434,499 in the Euro saving	This matter will be looked into thus taking action to correct the necessary adjustments.	The interest income should be correctly computed and shown in the financial statements.

	deposit account and the fixed deposit of Rs. 30,000,000, had not been brought to the financial statements.		
c)	The deposits made directly to the bank totalling Rs. 10,825,952 unidentified by the end of the year under review, had been brought to accounts as accrued expenses rather than being recognized and correctly accounted for.	Several measures have been taken to identify the deposits made directly to the bank, and action has also been taken to inform the bank.	Action should be taken to recognize those unidentified direct bank deposits continuing to exist since 2012 and account for correctly.
d)	The cost of Property, Plant and Equipment which totaled Rs. 48,471,163, not yet disposed despite being scheduled for disposal and the provision for depreciation thereon amounting to Rs. 47,603,778, had been eliminated from the accounts. As such, the net value of Property, Plant and Equipment had been understated by Rs. 867,385.	Action will be taken in due course to eliminate correctly from accounts after completing the disposal process.	Fixed assets and provisions for depreciation should not be eliminated from accounts until the disposal process is done properly.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

	Audit Observation	Comment of the Management	Recommendation
a)	Action had not been taken even in the year under review to recover the sundry debtors' balances totalling Rs. 40,476,583 continued to exist without being recovered for 03-17 years in the receivable balances.	This balance is a lease rent receivable with respect to the period during which the State Ministry of Science and Technology had been maintained at the Industrial Technology Institute on a rental basis and several requests had been made for the recovery of this balance. The items such as, Management Information System, Sri Lanka Insurance Corporation, Oxygen House, WHT Tax and VAT WHT, has been	Legal action should be taken to recover the long-standing dues.

		continuing to exist for 10 years, and recovery of such balances is difficult.	
b)	The loan amount of Rs. 1,003,250 given to the welfare association of the Institute, and the sum of Rs. 11,415,309 being the value of hand sanitizers given to the Sri Lanka State Trading (general) Corporation, had not been recovered but provisions for doubtful debts had been made up to 100 percent.	It has been informed that action would be taken to settle a part of the loan given to the welfare association. Action will be taken to recover the sum of Rs. 11,415,309, the value of hand sanitizers given to the Sri Lanka State Trading (General) Corporation.	Action should be taken properly to recover the dues.

1.6.2 Funds Payable

Audit Observation	Comment of the Management	Recommendation
Retention money of Rs. 8,821,486 relating to constructions and implementation of miscellaneous projects pertaining to the period 2017-2021, and 06 payable balances totalling Rs. 7,001,990 continued to exist over 02-12 years, had not been settled even by the end of the year under review.	A sum of Rs. 5,159,873 out of those retentions had been retained due to internal audit reports. The balance will be settled in this year. The balances of "Refund Customer Overpayment", and "2015 VAT Overpayment" were the taxes received during instances where the percentage of VAT had changed. Allocations have been so made in order to repay all those values as per the requests of the customers.	Action should be taken to settle those long-standing dues without delay.

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 9(i) of the Inland Revenue Act No. 17 of	Action had not been taken either to register for income tax or obtain exemption.	The Industrial Technology Institute was registered for	Action should be taken either to register for income tax or

	2017.		income tax for the period 2023/24, and action will be taken accordingly.	obtain exemption.
b)	Section 40 of the National Audit Act, No. 19 of 2018.	The post of Chief Internal Auditor remained vacant since April 2024.	Recruitment will be made as soon as approval is received.	Action should be taken promptly to recruit an internal auditor to the vacant post.
c)				
i.	Financial Regulation 371 (5) as amended by Public Finance Circular, No. 01/2020 dated 28 August 2020.	Advances totalling Rs. 17,618,815 given to the suppliers during the years 2023, 2024, and the years prior, had not been settled. Although settlements should have been done on or before 31 December of the year of finance in which the imprests had been issued, an unsettled balance of sub-imprest amounting to Rs. 2,521,914 existed at the Institute as at 31 December 2024.	All the measures will be taken for the expeditious settlement of imprests.	Advances should be settled as soon as the completion of the intended purpose. Furthermore, action should be taken to settle all the imprests by the end of the year in terms of the Financial Regulations.
ii.	Financial Regulation 756 (6) of financial regulation code of the Democratic Socialist Republic of Sri Lanka.	Reports of the Board of Survey for the years 2023 and 2024, had not been furnished to the Auditor General.	Report of the year 2023 has been presented for approval of the Board of Directors, and the report for the year 2024 is being prepared. Action will be taken to submit that report immediately.	Board of survey should be conducted in accordance with Financial Regulations, and action should be taken to submit the reports to the Auditor General within the specified timeframe.
d)	Section 5.4.4 of the Government Procurement Guidelines.	Only a sum equivalent to 20 per cent of the value should be paid as advances, but the total value had been paid as advances to the suppliers	Goods have been received or services have been supplied with respect to	According to the Procurement Guidelines, the advances should be given only to

		relating to purchases made locally.	many of them. This situation arose due to certain delays in preparing GRN. However, the Procurement Guidelines will be followed when giving advances and making payments for the goods being purchased in due course.	value which is equivalent to 20, percent .
e)	Of the Operational Manual for State Owned Enterprises introduced through the Public Enterprises Circular, No. 01/2021 dated 16 November 2021;			
i.	Section 3.2	A sum totalling Rs. 10,842,115 had been paid in the year 2025 for the unavailed leave in the year under review, but approval of the Treasury had not been obtained thereon.	Not commented by the management.	Such allowances should be paid only after obtaining Treasury approval as per instructions of the Circular. Action should be taken to recover the allowances paid without being formally approved.
ii.	Section 6.6	A draft annual report should be presented to the Auditor General within a period of 60 days since the end of the	Action will be taken to present the draft annual report along with	According to the Circulars, the draft annual report for the year under

	financial year. However, the Institute had not presented the drafted annual report even up to 16 June 2025. The annual reports for the years 2022 and 2023 had not been tabled in Parliament.	the financial statements in the upcoming year. Action is being taken to table the annual reports of the years 2022 and 2023 in Parliament .	review should be presented along with the financial statements, and action should be taken to table the annual reports of the preceding years in Parliament .
f) Section 01 of the Public Enterprises Circular, No. PED/03/2024, dated 23 December 2004,	Institutions failing to pay dividends/taxes equivalent to at least 30 per cent of the profit generated in the year 2023 to the consolidated fund, are not entitled to pay bonuses to the staff based on profits. However, without doing so, the Institute had paid a sum of Rs. 35,210,816 as bonus, incentives and holiday pay during the year under review.	Not commented by the management.	As credits had not been made to the consolidated funds as required by the Circulars, there is no entitlement to the bonus, and hence, bonuses should not be paid.

2. Financial Review
2.1 Financial Result

The operating result of the year under review was a surplus of Rs. 81,056,338 as compared to the corresponding surplus of Rs. 92,240,946 for the preceding year, thus observing a deterioration of Rs. 11,184,608 in the financial result. Increase in expense on personnel emoluments, maintenance expenses, expenses on contracted services and travel expenses by Rs. 74,817,200 in relation to the increase in accreditation services income, consultancy services income, income from the contracted projects, and total of the recurrent receipts by Rs. 40,649,823, and the decrease in expenses on supply of services and project expenses by Rs. 17,482,112, had mainly attributed to the said deterioration in the financial result.

3. Operating Review
3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
a)	An accredited state-of-the-art pharmaceutical laboratory equipped with the facilities of advanced pharmaceutical laboratories in developed countries, including GLP	The laboratory was established with the expectation that, under the guidance and financial support of the Government, the Ministry	More than five years have passed since the establishment of the laboratory, and necessary measures should be taken to hold

	standards, had been established within the institution at a cost of Rs.99,423,972 from Treasury provision and maintained since 2019. However, due to the absence of an agreement with the National Medicines Regulatory Authority which regulates the procurement and distribution of all Western medicines in the country, including the hospital system in the country in connection with the supply of above laboratory services, the laboratory has not been utilized to serve its primary objective of functioning as an independent, accredited third-party testing laboratory for the development of pharmaceutical sector in Sri Lanka. Furthermore, its intended objectives including transforming into a nationally and internationally recognized center of excellence for pharmaceutical analysis, conducting chemical and physical analyses of all required parameters in field pharmaceuticals, resolving national issues related to the quality of medicines, and strengthening local regulations and guidelines relating to medicines have not been achieved so far.	of Health would introduce the necessary policy changes to make independent third-party testing of pharmaceutical products mandatory, in order to regulate the testing of medicines imported by companies. However, since the National Medicines Regulatory Authority has not made third-party testing compulsory, pharmaceutical manufacturers and importers do not submit their products to the ITI for testing.	discussions with the Ministry of Health and establish a proper mechanism to utilize the laboratory effectively.
b)	Although a petroleum and lubricants laboratory had been established and the necessary equipment had been purchased during the period 2017 - 2020 at a cost of Rs. 117,776,752 to test the quality of third-party petroleum products in accordance with the Cabinet Decision No. අමප/16/1576/19/96 dated 31 August 2016 and the regulations	As this laboratory does not possess the regulatory authority, all samples are not received by our laboratory. This process remains within its key objective, and since it constitutes a national requirement, action is being taken, in accordance with the	More than five years have passed since the establishment of the laboratory using Treasury funds. As such, steps should be taken, in agreement with the relevant institutions, to formulate a mechanism for obtaining samples, in order to achieve the

	of the Public Utilities Commission of Sri Lanka, the primary objective of establishing the laboratory had not been achieved due to not establishing a methodology of receiving petroleum samples.	Cabinet decision, to implement it as early as possible with the full commitment of the Ministry of Power and Energy and the Public Utilities Commission of Sri Lanka.	primary objectives for which the laboratory was established and to ensure the effective utilization of the laboratory.
c)	During the period from 2020 to 2024, a total of Rs. 100,314,680 had been paid as research allowances which is equivalent to 35% of the basic salary to officers engaged in research activities. However, the core objective of the institution's establishment, which is to accelerate research aimed at enhancing the quality of products, improving technological processes and methods used in technical industries and discovering new procedures and techniques for industrial use in order to elevate Sri Lanka's overall technological standard, and to identify research that can provide a productive technological contribution had not been adequately pursued. Accordingly, the institution had not received any royalty share during the year under review, while in the previous year such royalty share had been as low as Rs. 580,000.	Research and development priority areas and themes are primarily selected based on the needs of industries and the country. The research and development priorities will be identified for the year 2025 in accordance with the strategic plan of the Industrial Technology Institute, which has been formulated based on national policy.	A conducive environment should be created where the royalty can be increased by introducing quality and effective new technology and introducing that technology to the market within the contracted period of research activities, as well as make a productive contribution to the national economy through new research and technological discoveries.
d)	The Institute had not completed 23 research projects, that had been started in 2021 and scheduled to be completed in 2023 and 2024, with a total cost of Rs. 60,135,000, and by 30 June 2025, a period of 01-03 years had passed beyond the contractual period. Although the period of 16 projects had been extended, a	Instructions were given to the researchers to complete the research projects within the contractual period	Measures should be taken to establish appropriate rules, regulations, and control mechanisms to ensure the effective utilization of Treasury allocations, the timely completion of research projects within the contractual

	period of 03-13 months had passed, since the extension period for 05 projects had also expired.		stipulated time period and the submission of final reports by the stipulated deadlines.

3.2 Operating Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
a)	A stock of ethanol worth Rs. 7,910,360, which could have been used in the production of hand sanitizers, remained idle without being used by the institute throughout the year.	Ethanol was used for hand sanitizers during the COVID-19 pandemic period in 2020/2021, but due to low demand of the above product at present, product is not being manufactured. However, this stock of ethanol is being used to produce BIO DIESEL and detergents.	This stock should be used before it expires or other appropriate action should be taken.
b)	While the annual diesel consumption of the Institute was valued at Rs. 319,637, a stock of 7,177 liters of diesel worth Rs. 2,316,281 purchased in 2022 based on the decision taken to maintain fuel stocks as a remedy for fuel shortage, was stored in 02 tanks with a capacity of 8000 liters within the premises of the Institute.	Currently, action is being taken to obtain fuel from this stock for vehicles of the Institute running on diesel.	Buffer stocks of fuel should be maintained based on requirements of the Institute, and stocks should not be accumulated unnecessarily.
c)	Four machines worth Rs. 2,202,614 used to provide testing services in the Herbal Technology Section located in Malabe remained non-functional since 2019 ,and had not been repaired and put into use even up to the date of audit, 20 June 2025.	The cost of repairing this equipment is high, and even if repaired, the required efficiency would not be achieved. As such, measures are taken for the disposal.	Non-functional machines should be repaired promptly and put into use. Only if it is not possible to do so, action should be taken for disposal.