

## **Industrial Technology Institute - 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Industrial Technology Institute for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 Sugarcane Research Institute as at 31 December 2021, and of 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 based 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 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 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 Corporation.

#### **1.4 Audit Scope ( Auditor's Responsibilities on 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 Corporation'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 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 it 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 on Preparation of Financial Statements**

### **1.5.1 Internal Control over the Preparation of Financial Statements**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with Reference to Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Although either the First-In-First-Out method (FIFO) or the Weighted Average Cost (WAC) method should be chosen to value the cost of stock in terms of	As the existing computer system does not have the necessary facilities to carry out the stock computation based on	Cost of stock should be calculated as per Accounting Standards.

Section (35) of Standard No.09, without doing so, the Institute had computed the stock at Rs.28,685,144 as at 31 December 2021 using simple average cost method and accounted for.

weighted average cost, the simple average cost method has been using for stock computation. The new computer system with this facility has been installed by now. The stock computation will be conducted using the weighted average method from the year 2022.

(b) Although the useful lives of the assets should be accurately identified and corrections should be made to the accounting estimates in terms of Standard No. 03, as it was not acted accordingly, actions had not been taken to re-review the effective life of the fixed assets which were fully depreciated and further being used cost at Rs.878,546,346 and enter into accounts.

Although fully depreciated assets but further being used should be revalued, this has become difficult to do based on the practical difficulties (services of technical experts) for revaluation of these assets and the prevailing situation in the country. However, the actions are being taken to obtain the services of an experienced service provider for that.

The useful life of assets should be accurately identified and entered in the financial statements.

(c) The laboratory equipment which was purchased in previous years valued at 225,234,416 and transferred between asset accounts in the year under review in contrary to the conditions mentioned in Standard No. 02 had been shown in the cash flow statement as an expenditure in the year under review.

This value has been adjusted by deducting from work-in-progress shown under investing activities.

Cash flow statement should be prepared using only transactions relating to the year under review as per Standard.

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Unidentified Direct Bank Credits as at 31 December 2021 amounting to Rs.12,897,354 had been shown as expenses payable under current liabilities in the financial statements without being identified by the Institute even by the year under review.</p>	<p>Several necessary measures have been implemented to identify and account for the related direct banking through Smart Online Payment Gate Way System (WEB PAY, SMART PAY, LANKA QR, Internet payment gateway and APP Biller) from the end of 2021 by avoiding this situation. Further, the bank has been made aware not to allow money to be collected in our account without a proper invoice number. This Rs. 12,897,354 has been reduced to Rs. 5,270,109.39 by May 2022 . Actions are being taken to get confirmed the rest of the direct banking transactions.</p>	<p>Actions should be taken to properly identify the unidentified direct bank credits.</p>
<p>(b) Although the debtor balance as at 31 December was Rs.11,124,306 as per the debtor's age analysis as at 31 December of the year under review, because it was mentioned the debtor balance as Rs.15,718,055 in the financial statements (Note 18A) , a difference of Rs.4,593,749 was observed between the debtor's age analysis and the debtor balance in the financial statement. Nevertheless, actions had not been taken to review such</p>	<p>The computer software company has been informed to correct this difference. At present, actions are being taken to make the relevant correction.</p>	<p>The relevant balances should be maintained in a manner of the balance of the debtor's age analysis and the debtor balance are equal.</p>

changes and to adjust in the financial statements.

- (c) Due to double counted of the same transaction in the ledger at the time of depositing the money deposited in the bank by online by the customers for providing the services from the Institute and at the time of submitting the original copies of the deposit receipts related to those deposits to the Institute, the debtor balance was understated by Rs.7,602,974 and the cash balance was overstated by that value in the financial statements. The said value was included in the bank reconciliation statement as unrealized deposits and the bank reconciliation had been prepared.
- This was simply happened due to the prevailing COVID-19 situation in 2020 and 2021 because of the practical difficulties of the majority of people depositing money online and the relevant staff was working from home to carry out the necessary communication activities properly. This situation has now been properly settled.
- Receipts of cash from online method from debtors should be arranged in such a way that they are not double-counted and the bank reconciliation should be properly prepared.
- (d) As the Information/ schedules related to balance confirmation for the total of Rs. 8,039,067 for 08 balances shown in the financial statements as balances payable from 03 years to 16 years as at the end of the year under review were not submitted for audit, these liabilities could not be satisfactorily vouched during the audit.
- The balance confirmations relevant for Bank Rejection, Maintenance Expenditure (coir project) for Re-Banking are more than 10 years old and it is difficult to obtain details related to confirm these balances. Refund Customer over payment, 2015 VAT over payment are the balances are the taxes paid in cases where VAT percentage changes and provisions were made for all the amounts so paid, for payment on the request of the respective customers . The DMS30Resigned/ Present Employee value is a
- Arrangements should be made as per the balances shown in the financial statement are confirmed.

provision made for payment of arrears due on change of rank of the posts held by the then officers as per circular DMS30.

- (e) The value of 19 laboratory equipment received by the Packing Material Lab of the Institute through UNIDO Grant in August 2019 was not assessed and included in the financial statements and Register of Fixed Assets and the equipment was also excluded from the depreciation process. The information required to ascertain the value of these high value equipment was also not submitted to the audit.
- Nineteen pieces of equipment were received to the Packaging Laboratory as a UNIDO Grant in 2019 and the equipment was temporarily stored in the petroleum laboratory at that time. This is because the construction of the packaging laboratory was commenced in 2019 and was unfinished then. Accordingly, although the relevant equipment commissioning was done in 2019, the equipment packaging laboratory was established in the late 2021. ( Renovation was completed in 2021 ) Accordingly, the use of these laboratories and its assets will be operational from the year 2022 . As the location of the assets and the proper placement of the assets were not completed by the end of 2021, these grants were entered in the Register of Fixed Assets in 2022. Accordingly, appropriate adjustments have been made through the accumulated fund for the depreciation of these fixed assets from the date of receipt of these fixed assets up to year 2021.
- The fixed assets received by the Institute should be properly included in the Register of Fixed Assets and in the financial statement.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken even in the year under review to recover the sundry debtors balance remaining in the receivable balance older between 1 year to 07 years totalled to Rs.14,535,683 and the amount of Rs. 17,044,754 to be collected from 21 officers who had violated the terms of foreign scholarship agreements had not been recovered even in the 31 December 2021 .	<p>This is the rent receivable pertaining to the period of the State Ministry of Science and Technology located in Institute of Industrial Technology on rental basis and this has been requested in writing several times.</p> <p>The items of Management Information System, Sri Lanka Insurance Corporation, Oxygen House, WHT Tax, VAT WHT balances remaining from 10 years ago and recovery of these balances has been difficult.</p> <p>The relevant parties have been informed in writing to pay the money for the refundable air tickets and if the money is not paid, legal actions will be taken.</p> <p>Out of the total amount of Rs.17,044,754 to be collected, the amount of Rs.4,020,392 is related to 17 officers and although measures have been taken to recover the relevant money from the officers who broke the agreement, those measures had failed because those officers had left the island. Many of their guarantors are also out of the island and some are not even alive.</p>	Actions should be taken to recover the money receivable.



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

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	<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Section 507 (2) of Sri Lanka Financial Regulation	The existence of every fixed asset item should be checked and their status should be recorded as at 31 December. Although a statement on these assets should be prepared and submitted to the Auditor General along with the annual accounts, the Board of Survey for the year 2021 had not been conducted by the institute even by 26 August 2022 the date of audit.	Due to the fact that the fixed asset verification activities related to 31.12.2021 could not be properly implemented in the organization due to the COVID-19 (Corona) epidemic and also the recent fuel crisis and the situation in the country, it was not possible to work for all 5 days, the verification of fixed assets could not be completed within the stipulated time. The activity has already been started and actions will be taken it will be taken to complete very soon (in the month of September 2022).	The Board of Survey should be carried out on the scheduled dates and the relevant reports should be submitted.
(b)	Section 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016 and General Format 267	Although a fuel test should be carried out again in every 12 months after every fuel test or after 25,000 km or after a major engine overhaul, whichever occurs first in respect of the amount of fuel burnt in vehicles owned by the Institute and also should maintain running charts,	The vehicle fuel combustion test was done regularly with the supervision of the Internal Audit Division previously and those activities had hindered due to practical (most of the vehicles currently in use are only 10 or 15 years old) and current	Actions should be taken to carry out fuel tests of vehicles properly and record necessary information in log books.

make notes in the log book about the details such as the date of the relevant inspection regarding fuel combustion carried out, mileage per litre and signature of the officer who checked the fuel combustion accordingly, relevant notes had not been included in an any book out of 22 logbooks checked, whether the fuel tests were done.

problems (corona epidemic and fuel shortage in the country) and actions are being taken to consider the present situation and to do the said activities quickly and systematically.

## 1.8 Cash Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
Even though 04 bank accounts with the value of Rs.2,448,085 are being maintained as dormant bank accounts for more than 06 years, actions had not been taken to even invest the money.	The account number 000-2876-229 was used for the coir project which is a coir related project and the account number 000-9283-122 and account 000-8174-439 are the accounts of the EEPEX project and this will be used for the GIZ project, which will be started from 2022 . No. 76175979 is the bank account related to the project with GIZ and this account can be used for that.	Necessary actions should be taken in respect of dormant bank accounts.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 47,679,836 and the deficit as against to that was Rs. 11,065,299 in the preceding year. Accordingly, an improvement of Rs. 58,745,135 was observed in the financial results. The increase of the recurrent grant by Rs.9,467,000 and the increase of the income by Rs. 61,573,883 had mainly attributed to this improvement of the financial results .

**3. Operating Review**  
**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) Although an accredited pharmaceutical laboratory including GLP status had been run in the Institute since 2019 at a cost of Rs.99,423,972 from the Treasury allocations with facilities in parallel with advanced pharmaceutical laboratories in developed countries, actions had not been taken to obtain comprehensive services from the above Laboratory by the National Drug Regulatory Authority in the supply and distribution of all western medicines including the hospital system in the island. Due to this, it was observed that this laboratory is not being used as an independent accredited third party laboratory for the development of the pharmaceutical sector in Sri Lanka, which was the main purpose of establishing the laboratory. Further, to convert to a locally/internationally recognized center of excellence for medicine analysis, chemical and physical analysis of all required traces of field drugs, solving national problems related to drug quality and strengthening local regulations and guidelines on medicines which were among its expected main objectives had not been achieved.</p>	<p>The Pharmaceutical Laboratory was established based on government guidance and financial support to streamline testing of pharmaceutical products imported by domestic manufacturing companies. It was expected that the Ministry of Health would make the necessary policy changes to mandate third-party independent testing of the quality of pharmaceutical products for initial registration in National Drug Regulatory Authority and subsequent annual registration. The National Medicines Regulatory Authority is the organization with regulatory powers over drug testing under the Ministry of Health. As third party testing has not been mandated, pharmaceutical manufacturers and importers do not visit ITI to test their products. Therefore, it is necessary to implement the state third party independent test which is a mandatory requirement by the relevant regulatory authority. The Industrial Technology Institute will receive only a</p>	<p>Arrangements should be made to use this laboratory as a third party research laboratory through the National Medicines Regulatory Authority and actions should be taken to accomplish the main objectives of establishment of the laboratory.</p>

very small portion of the actual testing requirements for both pharmaceutical and lubricant testing until the above changes in the regulatory framework are implemented.

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| <p>(b) Due to the fact that a system for receiving mineral oil samples was not created for the mineral oil and lubricating oil laboratory which had been installed at a cost of Rs. 117.7 million to acquire and install equipment for testing third-party mineral oil production, in accordance with the Regulations of Public Utilities Commission of Sri Lanka (PUCSL) as per Cabinet Decision of Cabinet of Ministers dated 31 August 2016, it was observed that the basic tasks of setting up the laboratory had not been completed.</p> | <p>Since there is no regularity authority for our laboratory also, all the samples are not received to our laboratory. This process is within the primary objective and as it is a national interest, activities have been happening for implementation as soon as possible as decided by the Cabinet on the full commitment of the Ministry of Energy and the Public Utilities Commission of Sri Lanka for that.</p> | <p>Necessary measures should be taken to operate as a petroleum testing laboratory in association with relevant organizations.</p> |
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### 3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Although the Programmable Fluid Bath equipment which was received by the Institute through UNIDO Grant that can be used to maintain the temperature of the Resistor device at the required condition valued at Rs. 1,763,040 was included in the Register of Fixed Assets as a</p>	<p>As a result of the following reasons, this Programmable Fluid Bath is not being used nowadays.</p> <p>1. This Programmable Fluid Bath is not required for modern resistor calibration.</p> <p>According to the old method, the resistor calibration was done by applying a fairly high current (&gt;5A) and by measuring the electromotive force between the terminals of the resistor. Due to this high current, it causes the resistance to heat up. Because of this, as the resistors are</p>	<p>Necessary arrangements should be made to utilize assets to get the fullest out of them.</p>

fixed asset on 04 September 2002 and remained in the electronic research laboratory, it was observed that it had been in idle without being utilized for research purposes since around 2006 .

sensitive to temperature, their resistance can change. Therefore, they are sunk in this Programmable Fluid Bath to control the temperature. The resistance is maintained at a constant temperature with the help of the Programmable Fluid Bath. Nevertheless, by providing a very small current (<100Ma), this measurement can be obtained very accurately by ultra sensitive 8.5 multi-meter which belongs to the Lab at present.

2. Because this requires more electrical power to operate a more cost has to be incurred.

As the old method required a slight high current (>5A) for resistance calibration, more power is required. Not only that, a lot of electricity is consumed to maintain the temperature in the Programmable Fluid Bath which has about 20 liters of oil. Because of that the cost increases . However, although this is currently not used. It can be used in the future for testing as per the needs of customers/clients.

(b) An extent of 3,627 square feet of the main building on the Industrial Technology Institute of Torrington premises and 57 units of office and laboratory equipment had remained in idle since 2017 .

The approval of the Board of Management had been obtained in the year 2021 to establish a laboratory for students studying the NVQ course in Room No. 1231 on the first floor of the main building and the courses are being conducted and the necessary laboratory equipment are also collected here and They are also being used in accordance with the requirements of the courses with all existing laboratory furniture equipment .

**Room No. 1238 on the first floor**

Office space and equipment should be utilize effectively.

**of the main building and Room No. 1123 on the ground floor**

Several rooms (including 1238 and 1123) in the main building, ground floor and first floor have been allocated for the new Science & Technology (S&T) Business Centre. The lobby area in the main auditorium and ground floor reception area has been completed and the facilities are currently being used by the S&T Business Center and the nameplate of the S&T Business Center has also been installed already. All the office equipment that are currently not in use but can be used are planned to be used in future because of the economic difficulties.

All the office furniture in Room No. 1238 on the first floor of the main building are Lab Benches and they cannot be easily discarded. Therefore, it is used as per the requirement.

Most of the office furniture in Room No. 1123 on the ground floor of the main building were used by the staff of the former Minister of State belonging to the Ministry of Science and Technology Research and they are not the assets owned by the Institute. However, 6 Lab Benches among other equipment cannot be easily discarded. Two unused chairs but in usable condition in the Chairman's office are useful for the use in new business center.