

Industrial Development Board of Ceylon - 2013

The audit of financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 38 (1) of the Industrial Development Board Act, No.36 of 1969. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1:2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Industrial Development Board of Ceylon as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Going Concern of the Board.

As a result of the continuous losses sustained by the Board, the net assets amounting to Rs. 289,942,677 as at 31 December 2012 had diminished up to Rs.168,789,170 as at 31 December of the year under review. Nevertheless, due to the effect of the revaluation of the property and plants carried out on 31 December 2014, the total assets and the net assets had increased by Rs. 941,908,020.

2:2:2 Sri Lanka Accounting Standards

The non-compliances with the following Sri Lanka Accounting Standards were observed during the course of audit.

Reference to Sri Lanka
Accounting Standards

Non-compliance

Sri Lanka Accounting Standard No. 01

In the preparation of the statement of changes in equity, the items such as Government Grants received in each year and the annual amortization which attribute to the changes in the opening balances of the equity items had not been separately made available.

Sri Lanka Accounting Standard No. 02

The valuation of stock should be carried out at the cost or the net realizable value, whichever is lower. Nevertheless, such a fair valuation had not been carried out in respect of the stock amounting to Rs. 37,483,282.

Sri Lanka Accounting Standard No.16

Since property and plants the carrying value of which was Rs.243,201,773 had not been revalued, a fair value on the property and plants had not been depicted in the financial statements as at 31 December of the year under review.

Sri Lanka Accounting Standard No. 18	The income of the Lakkam Sales Centre had been recognized at the time of settlement of dues to the supplier, but not at the time of generating the income. Accordingly, income amounting to Rs.1,767,589 had been recognized contrary to the standard.
Sri Lanka Accounting Standard No. 36	If reasonable Impairment Indicators exist on the assets, a sufficient accounting measures should be adopted to impair and disclose such assets at a fair value in the financial statements. Nevertheless, action had not been taken according to the standard with regard to the property, plant and equipment, closing stocks and long term debtors balances totalling Rs. 298,144,587.
Sri Lanka Accounting Standard No. 39	According to the Note No.2.4.2, it was stated that action would be taken on loans and advances in terms of the accounting standard, but action in terms of the Sri Lanka Accounting Standard No. 36 and 39 had not been taken on the loans and advances amounting to Rs. 40,356,404 and it had not been disclosed at a fair value.

2:2:3 Accounting Policies

The following observations are made.

- (a) If any accounting policy is introduced, it should be transparent and reasonable to disclose a fair financial position and capable of being consistently applied. However, a 100 per cent provision for doubtful debts in respect of debtors older than 5 years and 10 per cent provision for all the debtors less than 05 years had been made.
- (b) Without formulating an appropriate accounting policy with regard to the capitalization of assets by the Management, immaterial and lesser valued items had been capitalized.

2:2:4 Accounting Deficiencies

Since a sum of Rs.3,191,492 spent on the purchase of assets and expenses incurred during the year under review had been retained in the Pre-payment Account, assets had been under stated and due to un-identification of expenses, the profit had been over stated.

2.2.5 Contingent Liabilities

Even though provisions of Rs.4,406,388 for contingent liabilities had been made in respect of 20 cases filed against the Board by employees and industrialists, it had not been done on the basis of a proper professional judgement.

2.2.6 Accounts Receivable and Payable

Out of the debtors balances of Rs.61,704,896 as at 31 December of the year under review, a sum of Rs.47,265,947 had represented the balances older than one year, out of which a sum of Rs.34,091,170 represented the balances exceeding 05 years. However, the Board had not made reasonable effort for the recovery of these balances.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.95,048,744 as compared with the corresponding deficit of Rs.21,833,618 for the preceding year, thus indicating a deterioration of Rs.73,215,126 in the financial result. Further, the Working Capital of the Board as at 31 December 2013 amounted to Rs.110,896,947 and as compared with the preceding year, a corresponding deterioration of Rs.138,109,179 was observed.

3:2 Inordinate Increase in the Expenditure.

The administrative expenditure of the year under review amounted to Rs. 481 million and it was Rs.355 million in the preceding year. Increase in the provisions for the Employees Provident Fund and Employees Trust Fund, provisions for bad debts and increase in the exhibition and training expenditure had been the main reasons for the increase in those expenses.

4. Operating Review

4:1 Performance

The matters observed in the examination of the progress achieved in each Division are as follows.

- (a) There was no evidence to examine the progress of 3 projects and 06 activities relating to the Regional Development Division. Further, the progress of the other activities had ranged from 60 per cent to 29 per cent.
- (b) Seven activities of the Rubber Division had been carried out in any way during the year and the progress of the activities carried out had ranged from 13 per cent to 148 per cent.
- (c) Fifty one activities of the Marketing Division had not been carried out during the year.

- (d) The progress reports of the Planning Division had been prepared up to May 2013 only and as such the progress could not be checked.
- (e) As the progress reports of the Financial and Administrative Divisions had not been prepared, the progress thereof could not be examined and the progress of the Technical Services Division could not be examined as its progress had not been quantified. Three activities of the Industrial Estate Division had not been implemented during the year and in the examination of certain activities carried out it was observed that the targets given were not realistic.

4.2 Management Inefficiencies

(a) Scrap Division

The following Observations are made

- (i) Even though the funds of the Scrap Material Project cannot be transfer to other activities, a sum of Rs. 416,641 for travelling and over time expenses for the duties of the Deyatakirula Exhibition, a sum of Rs.7,000,000 for the payment of salaries of the casual employees , a sum of Rs.500,000 for the payment of incentives and a sum of Rs. 60,000 for the Welfare Association had been granted from the funds of the project.
- (ii) Although the objective of the Scrap Material Project is to sale of scrap materials purchased from various public institutions to small and middle scale industrialists at a concessionary price, 20 per cent of the sales amounting to Rs.18,404,967 made from January to May 2013 only to two buyers. It was, therefore, observed that objective of the project for the uplifting small scale industrialists had not been achieved.
- (iii) Thirteen items at a cost of Rs.2,800,922 which had not been verified had been included in the closing stock. Further, shortages and excesses of stocks had been identified in the physical stock verification , but any recommendation thereon had not been made by the Board of Survey.

4.3 Operating Inefficiencies

- (a) The following deficiencies were observed in the cost calculation of the various activities accomplished by the Board to the external parties.
 - (i) Non-utilization of costing manuals.
 - (ii) The basis adopted for the cost elements had become obsolete.
 - (iii) In the computation of cost, certain kinds of costs had not been taken into account as the relevant costs despite they were related.
 - (iv) In the estimation of cost, normal losses had not been identified.

- (v) Costs variations had not been identified between the estimated costs and the actual costs, after being compared.
- (vi) Costs accounting had not been carried out.
- (vii) Machine hours had been illegibly included in the time sheets used by the Board.

4.4 Underutilization of Funds

There were balances aggregating to Rs.10,155,405 in 07 current accounts and the balances aggregating to Rs.23,065,453 in 03 savings accounts as at 31 December of the year under review. Those balances had not been utilized in an effective investment.

4.5 Idle and Underutilized Assets

The following observations are made

- (a) Five printing machines costing Rs.4,454,473 remained idle during the year under review.
- (b) The Techno-Mobile bus purchased at a cost of Rs.7,950,000 in the year 2009 had been at the underutilized level during the past several years and it had not been utilized during the year under review.
- (c) The building the construction of which was commenced in December 2010 and completed in August 2012 at a cost of Rs.18.7 million for the enhancement of the laboratory facilities of the Technical Services Division had remained idle up to the date of reporting.

4.6 Resources of the Board given to other Government Institution

A driver belongs to the staff of the Board had been employed in the Ministry and a sum of Rs.349,440 had been spent in respect of his salaries and allowances during the year under review.

4.7 Personnel Administration

It was observed that 10 posts of management level, 100 posts of executive level and 160 posts of non-executive level had been in vacant position as at 31 December of the year under review and it had adversely affected the operations and administrative affairs of the Board.

4.8 Vehicle Utilization

The following observations are made.

- (a) The utilization of 21 vehicles in use had been at a low level and as compared with the maintenance cost, it was observed that a benefit had not been received as compared with the cost.

- (b) A maintenance cost amounting to Rs.275,926 had been incurred on 05 vehicles which had not been utilized for running and the cost incurred thereon was observed as a fruitless expenditure.
- (c) Maintenance and repair cost amounting to Rs.173,354 had been incurred in respect of two vehicles not owned by the Board and action had not been taken to transfer the vehicle properly.

5. Accountability and Good Governance

5:1 Presentation of Financial Statements

In terms of the Section 6:5:1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 the drafts annual reports and accounts relating to every State Corporation should be furnished to the Auditor General within 60 days after close of the financial year. Nevertheless, the financial statements for the year 2013 had been furnished on 20 November 2014.

5.2 Internal Audit

Even though an Internal Audit Division had been in operation within the Board, audit reports had not been furnished in accordance with the Internal Audit Plan.

5.3 Budgetary Control

Out of estimated provisions relating to the capital expenditure, only 87.6 per cent had been utilized during the year under review and it was observed that the recurrent expenditure had exceeded the estimated limits ranging from 12 per cent to 12,540 per cent.

5.4 Tabling Annual Reports

The Annual Report of the year 2012 had not been tabled up to the date of audit.

5:5 Unsettled Audit Paragraphs

The following observations are made

- (a) The directives of the Committee on Public Enterprises of Parliament on which adequate attention had not been paid.

Item	Directive of the Committee on Public Enterprises	Date of Meeting of the Committee on Public Enterprises	Current Status / Observations
(i) Vacancy in the Post of Finance Manager	Examine the Scheme of Recruitment for all posts and fill all vacancies	09 December 2010	Two hundred and sixty posts including the post of Finance Manager had been vacant.
(ii) Sixty Eight defective manual pottery wheels and shortage of 79 manual pottery wheels.	Directed to conduct investigations on the stock shortage of 79 manual pottery wheels	16 November 2012	Investigations had not been finalized.
(iii) Products showroom at Badulla valued at Rs.1,412,100	Directed to take steps to utilise for the expected purposes.	16 November 2012	Even though the construction of the showroom had been completed, it had not been utilize for the intended purpose up to the date of this report.

- (a) Three machines purchased on 03 February 2006 for Rs.295,500 at the rate of Rs.98,500 per machine, for the Gonapura Food Project had been lying in the stores and their useful life period is lapsing.
- (b) The building of 1400 square feet with water and electricity situated on an 80 perch land called Mahiyangana, Miyanugana , Dimbulawatta and the land had not been used for any purpose over a period exceeding 15 years.
- (c) The hostel of the Appropriate Technology Research Centre at Pannala with the accommodation for about 25 person had remained closed down since the year 2004.
- (d) Some parts of the mushroom drier purchased at a cost of Rs.1,180,000 for a Mushroom Project had been misplaced and the machine remained idle in the Board Premises.
- (e) The billing printing machine and the software system purchased at a cost of Rs.306,750 in the year 2008 for the Lakkam Sales Centre remained idle even during the year under review.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Sale of Scrap Materials
- (c) Fixed Assets Control
- (d) Motor Vehicle Utilisation and Maintenance of Registers
- (e) Granting and Settlement of Advances
- (f) Control of Debtors and Creditors
- (g) Management level vacancies
- (h) Stocks Control
- (i) Budgetary Control