Industrial Development Board of Ceylon - 2014

The audit of financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Auditing 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 judgement, including the assessment of the risks of material misstatement 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 powers 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 2014 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 Sri Lanka Accounting Standards

The instances of non-compliance with Sri Lanka Accounting Standards are as follows.

(a) Even though it had been disclosed that the value of closing stocks had been stated in the financial statements at cost or net realizable value, whichever is lower in terms of the Sri Lanka Accounting Standard 02, the stock of Rs.30,859,050 had been shown at cost in the financial statements as at the end of the year. However, evidence for reconciliation of the cost with the net realizable value had not been made available to audit.

(b) Materially important machinery, equipment, furniture, computer hardware and software with the net book value of Rs.37,450,946 had been further stated at historical cost without being revalued to show a fair value in terms of Sri Lanka Accounting Standard No. 16.

(c) Even though unrecoverable loan balances should be represented separately in the financial statements if any, in terms of Sri Lanka Accounting Standard No. 39, the unrecoverable loan balances amounting to Rs.447,082 existed as at 31 December of the year under review had been classified under normal debts.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs.3,230,102 received from sale of motor vehicles by the Board during the year under review had been classified as operating activities without showing under investment activities in the Cash Flow Statement.

(b) The Board had not taken action to eliminate the revalued profit amounting to Rs.2,333,112 relating to the motor vehicles sold during the year under review from the Revaluation Reserve Account.

(c) A sum of Rs.29,991,070 which was identified as assets and expenditure but not brought to account as at 31 December of the year under review had been shown as pre-payments under the current assets.

(d) The accounting system used for the amortization of the sum of Rs.1,841,071 spent for the capacity building of the staff of the Board had not been disclosed in the financial statements.

2.2.3 Lack of Evidence for Audit

Confirmations of balances relating to the debtors balances totalling Rs.67,198,057 and creditors balances of scrap materials totalling Rs.15,703,805 had not been made available to audit.

2.2.4 Un-reconciled Control Accounts

In the reconciliation of receivables shown in the financial statements as at 31 December of the year under review and recoverable from the industrialists of Industrial Estates with the reports of the Industrial Estates Division, a difference of Rs.11,307,861 had been observed and reasons for that difference had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Necessary action had not been taken during the year under review for the settlement of a fuel advance amounting to Rs.235,570 brought forward prior to the year 2010.

(b) Action had not been taken to settle the value of deposits paid to the Local Authorities in obtaining the services such as water and electricity and constructions of buildings amounting to Rs.3,004,925 shown under other receivable deposits even after obtaining the relevant service.

(c) A balance amounting to Rs.8,419,804 shown under the trade and other receivable accounts and the debtors balance amounting to Rs.4,815,862 in respect of the Engineering Workshop classified under the sundry debtors of Rs.20,225,259 had remained without being recovered from 2 to 5 years.

(d) Even though the main source of income of the Board is to obtain the ground rent by granting developed lands to the industrialists in Industrial Estates, according to the financial statements, a sum of Rs.33,129,822 was recoverable to the Board, representing 51 per cent of the total recoverable balance.

(e) Balances exceeding 5 years included in the receivable Value Added Tax totalling Rs.10,741,964 and in the tax values amounting to Rs.16,307,420 had been shown under other current assets and the Board had not taken action to settle those values.

3. Financial Review

3.1 Financial Results

The financial result of the Board for the year under review had been a surplus of Rs.419,312 as against the deficit of Rs.84,728,727 for the preceding year, thus indicating an increase of Rs.85,148,039 in the financial result of the year under review as compared with the preceding year . The contributions and interest thereon which had to be paid by the Board due to failure in taking into consideration the cost of living allowance in remitting to the Employees' Provident Fund and Trust Fund since the year 2006 had been computed and brought to account in the year 2013 and that value amounted to Rs.66,354,739. As such, the unusual decrease in the financial result of the year 2013 and the exhibition income amounting to Rs.16,401,543 not received in the preceding year but received in the year under review had mainly attributed to the better improvement of the financial result of the year under review.

3.2 Inordinate Increase in the Expenditure.

A sum of Rs.16,439,000 had been incurred for rent and lease, allowances for Directors, entertainment allowances and exhibition expenses during the year under review and it was an increase of 68 per cent as compared with the preceding year. Making provisions amounting to Rs.10 million for rates and taxes payable for many years to the Local Authority for the premises where the Head Office is located, had mainly attributed to the increase in those expenses.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Out of the registered industrialists in the Scrap Material Project, 85 per cent had been centered in the Western Province and the Central Province and effective measures had not been taken to expand to other Provinces.

(b) The activities of the Financial and Administrative Divisions had not been included in the Action Plan prepared by the Board and parties or Divisions which should be directly responsible for fulfilling of relevant activities had not been identified.

(c) Prescribed targets were impracticable due to matters such as impracticable targets used for the preparation of the Action Plan in respect of each Division, preparation of the Action Plan traditionally without identifying future demands and new marketing trends, failure in taking into consideration the specific features which cannot be controlled and related to the Division, failure to pay attention on vacancies existing in every district, failure to carry out a study in respect of the cadre of the Division. As such, the variance of the actual result had ranged from 10 per cent to 198 per cent and in certain Divisions it had ranged from 50 per cent to 241 per cent. Moreover, 10 activities fulfilled by the Engineering Division which is the most important Division of the Board had not been included in the Action Plan. Only one activity out of 8 included in the Technical Services Division had been fulfilled and it was observed that even though another 04 activities had been fulfilled, those were not included in the Action Plan as well.

4.2 Operating Inefficiencies

The costing method in respect of supplies and services provided to the customers by the Divisions such as Leather, Rubber, Technical Services and Engineering Division had not been updated.

4.3 Matters of Contentious Nature

Contrary to the recommendation of the Technical Evaluation Committee, the contract for the supply of security services to the Board had been awarded to a value of Rs.20,994,741 to the same institution by which the unsatisfactory service had been supplied before.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) A sum of Rs.150,000 had been paid for consultancy services without obtaining a consultancy service during the year under review.

(b) The building constructed by spending a sum of Rs.2.9 million for the Technical Services Division by considering as an urgent requirement in December 2010 had remained idle without utilizing for any purpose.

(c) The Mobile Technical Bus purchased at a cost of Rs.8.2 million in the year 2008 had not been utilized.

4.5 Uneconomic Transactions

The following observations are made.

(a) Despite having motor vehicles owned by the Board for the transportation of scrap materials, an extra expenditure amounting to Rs.492,855 had been incurred thereon for using hired vehicles during the year under review.

(b) Telephone and internet facilities had been obtained from two institutions without considering on the requirement and as such, a sum of Rs.1,085,250 was payable as at 31 December of the year under review. Further, despite obtaining internet facilities from the Sri Lanka Telecom, internet facilities had been obtained from Dialog Institute as well and a sum of Rs.283,125 had been spent thereon.

(c) Despite having a female legal officer in the service of the Board, a sum of Rs.158,500 had been incurred for legal expenses during the year under review.

4.6 Personnel Administration

The following observations are made.

(a) The approved cadre as at 31 December of the year under review had been 714 whereas the actual cadre had been only 500. As such, 214 vacancies had existed in the staff. Among them, the actual cadre for the posts of Deputy Director General and the Director had been 11, out of which, 06 had been vacant. Moreover, out of the posts of Development Officer, Senior Business Promotion Officer who were directly involved in the main objectives and operating performance of the Board , 67 per cent had been vacant.

(b) Appointments had been made on acting basis for the vacant posts and allowances amounting to Rs.1,039,748 had been paid thereon only during the year under review alone.

(c) Action had been taken to revise the salaries of the employees of the Board on the instructions and approval of the Chairman of the Board without consulting the Department of Management Services and the Board had failed to formulate a methodology for Graded promotions on the instructions given by the Management Services Circular No.30. Salaries had been overpaid and underpaid by Rs.6,268,931 and Rs.1,222,589 respectively for two groups of employees from the year 2006 to the year 2010 alone through the erroneous computation of salaries due to failure in applying the proper salary steps.

4.7 Vehicle Utilization

An additional motor vehicle had been allocated to the Chairman of the Board during the year under review and a sum of Rs.608,076 had been paid as salaries, overtime and travelling expenses due to deploying a driver in the service for him.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the draft, annual reports and accounts relating to every State Corporation should be presented to the Auditor General within 60 days after the closure of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements for the year 2014 had been presented on 18 March 2015.

5.2 Internal Audit

Even though an internal audit unit had been established in the Board, the post of Internal Auditor had been vacant for many years. Moreover, the approval should be obtained for the internal audit plan relating to a certain year on or before 15 January in every year. Nevertheless, it had not been so done and attention of the Accounting Officer of the Board had not been drawn to the relevant audit queries properly.

5.3 Procurement Activities

Shoes purchased at a cost of Rs.555,988 for the employees of the staff during the year under review are contrary to the specifications and the shoes provided were not in a usable condition.

5.4 Budgetary Control

In the reconciliation of the estimated expenditure with the actual expenditure, the expenditure of 12 items had exceeded the estimated limit ranging from 117 per cent to 4,022 per cent. It was observed that the budget had not been made use of as an effective instrument of management control of the Board due to weaknesses in expenditure control as well as the estimating errors.

5.5 Tabling the Annual Reports

The Annual Report of the year 2011 had been tabled in Parliament on 19 November 2014 and Annual Reports of the years 2012 and 2013 had not been tabled up to the date of audit.

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)	Personnel Administration	No action had been taken to fill the staff vacancies.
(b)	Accounting	Non-compliance with Accounting Standards.
(c)	Reporting the progress according to the Action Plan	Non-preparation of the progress in an updated manner.
(d)	Budgetary Control	Failure in assessing the expenditure correctly in the preparation of the budget.
(e)	Procurement Activities	Neglecting the recommendations of the Technical Evaluation Committee and purchase of goods contrary to the specifications.
(f)	Fixed Assets Control	Purchases, use and documentation had not been made properly.