

**1. Financial Statements**

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**1.1 Opinion**

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The audit of the financial statements of the Sri Lanka Institute of Biotechnology for the 14 months ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the 14 months 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021, and of its financial performance and its cash flows for the 14 months then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**

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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 opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 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 Commission.

## 1.4 Audit Scope

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

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review amounted to a deficit Rs. 50,222,771 and the following had been taken into account in the calculation.

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|----------------------------|--------------|
| Other operational income   | 240,000      |
| Salary and Wages           | (17,624,586) |
| Employee Provident Fund    | (2,098,348)  |
| Employees Trust Fund       | (524,587)    |
| Building Rent              | (23,676,200) |
| Depreciation               | (313,825)    |
| Other Operational Expenses | (6,219,753)  |

## 3. Operational Review

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### 3.1 Management Inefficiencies

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| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| -----   | -----   | -----   |
| According to the Public Business Circular 1/2021 issued on November 16, 2021, full powers regarding human resource management were assigned to the Board of Directors in accordance with clauses 3.1 and 3.2 (ii) of Chapter 3 of the Operations Manual introduced for government-owned enterprises. As of the audit date of May 31, 2022, the company's recruitment procedure was not in prepared. | By 08 April 2022, the preparation of the draft recruitment policy has been started. The final report has been in the process of approval. | Action should be taken to the recruitment procedure properly prepared and duly approved |

### 3.2 Operational Inefficiencies

| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|--|--|--|
| (a) Although Rs.12,600,000 has paid to the National Water Supply Board by treasury funds on December 20, 2021 for laying internal water pipes to the company, the relevant services have not completed.  | As these service providers requested the total amount due for commencement of work, the National Water Supply and Drainage Board has paid within the allocated budget. Necessary arrangements had been made to bring the water supply close to the entrance of the institution. Since the cost of designing the SLIBTEC Park was a significant amount that could not be covered under the institute's budget, it had decided to get a grant from USAID. The internal water supply network cannot be completed as plans are expected to be completed through the grant. | Spending should be done with maximum efficiency and effectiveness. |
| (b) The company had leased a building from the Sri Lanka Institute of Nanotechnology to maintain the laboratory and paid an amount of Rs.37,171,800 for the period from September 2021 to August 2022. Although the rent for the building had been paid, the establishment of the laboratory had not been completed as on the date of audit. | A fund from the Asian Development Bank operating under the Ministry of Health's Health Systems Improvement Project has completed all laboratory design work and laboratory equipment is being purchased. In the current situation in the country, there is a delay due to rising USD rates.  | The establishment of the laboratory should be expedited            |

### 3.3 Human Resources Management

| <b>Audit Issue</b>  | <b>Management Comment</b>  | <b>Recommendation</b>   |
|---|--|---|
| (a) Although the company has not yet started research work, 5 scientists have been requited to assist in the preparation of research plans at a monthly salary and allowance of Rs.200,000 each. Also, a financial manager was requited on a salary and allowances of Rs.280,000 per month at a time when financial | Professionals with good knowledge should be recruited to prepare important development plans, test reports and carry out strategic activities at the initial stage of the Institution. This recruitment has been done in accordance with the Public Business Circular 1/2021 and steps have been taken to make | Action should be taken to achieve maximum performance while incurring expenses. |

transactions and work were going on at least.

the salary determination subject to all the approvals in a way that can fulfill the expectations of the institution based on the existing job demand and new business trends.

- (b) A Project Manager has been engaged to establish the Biotechnology Park and develop the necessary infrastructure for research by the end of August 2021 with a salary and allowance of Rs.350,000 per month from February 2021. Even by the audit date of May 2022, the institution had failed to fulfill those tasks.

All activities were delayed due to lack of materials, epidemic conditions and travel restrictions. The urban development authority has not yet given the deed, and due to this, it has not been possible to proceed with the planning of land surveying and the planning of the internal road system along with internal water lines and power lines. Road widening and power line construction has been temporarily halted. Delays in that work have occurred due to USAID's failure to comply with state regulations. Also, due to the fact that the owner of the building did not have the plans and the government did not pay the amount due to them, we were unable to work.

All expenses incurred should be economical and work should be done to achieve maximum performance.

- © Although the company is run with full treasury funds, the hiring of employees and the determination of wages were made based on the decision of the board of directors without the control of the treasury, according to the operating manual issued under the State Business Circular 1/2021. Rs.20,247,521 has spent from October 2020 to December 2021 to pay salaries and allowances for the employees of this company, which has not started any operations, and it was 40 percent of the total cost of the company.

The company is an entity established under the concept of public enterprise under Cabinet Paper No. 20/1085/204/107 and was established under the Ministry of Technology by gazette on 11.12.2020. It has clearly stated here that in order to achieve the relevant objectives, more attention should be paid to the objectives and new trends in the competitive market and the organizational structure should be prepared accordingly. Accordingly, we have worked according to the operational manual issued as per State Business Circular 1/2021 on how such institutions should work.

Operations should be started soon.

- (d) As per the decision of the Board of Directors dated February 24, 2021, the basic salary of the Chief Executive Officer including Special Project Allowance, Transport Allowance and Communication Allowance as Rs.250,000 was decided and approved. However, the value of the respective allowances was not specified separately. According to paragraph 3.3 of State Business Circular No. 1/2015 dated 25 May 2015, an official who owns an official vehicle has to choose one of the two options of using the official vehicle or paying a monthly transportation allowance instead of official vehicles, but according to the decision of the Board of Directors dated 24 February 2021, the company's principal The operating officer was given the opportunity to use the company's vehicle to travel to and from duty and to be reimbursed by the company for the cost of fuel. While determining the pay of the officer, the transport allowance was included and the pay has decided. As a result, it was observed that contrary to the above 1/2015 circular, both vehicle and transport allowance are given.
- In the board meeting held on February 24, 2021, it had discussed to provide Special Project Allowance, Transport Allowance and Communication Allowance subject to the basic salary of Rs.250,000 for the Chief Operating Officer. In the subsequent board meeting, it was decided to give the monthly basic salary of Rs.250,000 only. It has also decided to maintain the only car owned by the institution under the Chief Operating Officer and to bear the fuel costs for that. Currently, the institution has one car, so it is often used for business trips required for the institution's operations. Therefore, this car is used not only for the duties of the Chief Operating Officer of the company, but also for general use, and no transport allowance or reimbursement of fuel expenses has been made.
- The minute of the Board of Directors referred to herein was not submitted for audit despite several requests. In incurring expenses, rules, regulations and circular provisions should be complied with.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| (a) The action plan has given under 09 main activities and targets were not given for 02 activities in the year 2021. No performance indicators (KPI) or targets were | 06 subjects have been completed so far. The first 02 areas to be developed are HR system and HR policy development and planning of SLIBTEC Innovation Park. | Actionable plans should be prepared and planned tasks should be executed efficiently. |

specified for the remaining 07 activities.

- (b) Estimated annual costs for activities in the Action Plan have not provided. Details of the cost has clearly mentioned in the 2021 budget estimate. The annual estimated cost should be indicated as per the circular provisions while preparing the action plan.
  
- © During the review of the progress of the Action Plan, activities that were to be completed by December 31, 2021, but not yet completed, had been observed. The activities were delayed due to the fact that the required additional allocations have not yet been received, the lack of materials for planning the park, the Covid epidemic situation, the urban development supervisor has not given the deed for the park, the delay in getting the equipment for the laboratories, and the economic crisis in the country. Actionable plans should be prepared and planned tasks should be executed efficiently.