

Sri Lanka Institute of Biotechnology Company - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Biotechnology Company “Company” for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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. My comments and observations which I consider should be report to 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 Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Company’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 intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

1.4 Auditor's Responsibilities for the Audit of the 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 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions, and duties; and
- Whether the resources of the Company 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 the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the Relevant Standard	Management Comments	Recommendation
Although as per Section 09 of Sri Lanka Accounting Standards No. 02, it should be measured at the lower of cost or net realizable value, inventory was stated in the financial statements at cost value without calculating net worth of Rs. 18,485,440.	The FIFO method is used for inventory costing in the firm and accordingly, the correct closing stock is calculated on cost basis and shown in the balance sheet. When accounting for the stock in the income statement, the value is compared with the market value, and due to the high price change in the year 2023, the market value is at a very high level, so the cost value has been used as the stock value in the income statement.	In accordance with the accounting standard, inventory valuation should be done at the lower of cost and net realizable value.

1.5.2 Accounting Deficiencies

Audit Observations	Management Comments	Recommendation
The rent income of Rs.614,078 received in advance for 03 months of the next year had been accounted as an income during the year under review.	Agreed.	Only the income relevant to the year should be accounted as income when preparing the accounts.

1.6 Non-Compliance with Laws, Regulations, Rules, and Management Decisions

With Reference to Laws, Rules, Regulations	Non-Compliance (Rs.)	Management Comments	Recommendation
Section 6.6 of the Operations Manual for Public Owned	i. Although a summary of the annual report should be submitted within 60 days after the end of the	The annual report for the year of 2023 is currently being prepared, and the annual reports for the	According to the circular rules and regulations, a summary of the annual report should be

Enterprises introduced by Public Business Circular No. 01/2021 dated 16 November 2021 financial year along with the financial statements, the institution had not submitted the summary of the annual report with the set of financial statements. years 2021 and 2022 submitted along with the financial statements, and actions should be taken to present the annual report to the Parliament within 150 days after the end of the accounting year.

- ii. Although the annual report should be presented to the Parliament within 150 days after the end of the accounting year, the annual reports for the years 2021 and 2022 had not been presented up to the date of the audit. carried out by them after the ministry's supervision, and this process is currently ongoing.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 196,064,834, and the corresponding deficit in the preceding year amounted to Rs. 144,338,431. Therefore a deterioration amounting to Rs. 51,726,403 of the financial result was observed. The reasons for the deterioration are an increase in direct costs and administrative expenses of Rs. 39,836,630 and Rs. 29,338,376, respectively, despite receiving research income of Rs. 8,296,959 and a government recurrent of Rs. 4,448,294.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Management Comments	Recommendation
(a) 13.2 acres of land at Homagama Pitipana Aramawatta to be handed over to the Ministry of Science, Technology and Research for setting up the Biotechnology Innovation Park at a cost of Rs. 380 million had been paid to the Urban Development Authority in the year 2018 and Rs. 47 million had been spent for the development of the land. Although the operational activities of the park were supposed to start in the year	Incomplete deeding remains a problem for park development. The agency has incurred costs for land development, acquisition, security and maintenance until 2023, and prioritizing the engagement of security services and establishing a water supply as security measures on the land. Due to the inability to finalize the transfer of land deeds, contracts cannot be signed with the garden rental investors. Additionally, the redirection of funds to be paid for the development of SLIBTEC parks by officers of the ministry, along with the delay by the UDA in allocating a 04 lane road	Urgent attention should be paid to preparing the legal background for the future development of the park by maintaining relations with the relevant related institutions.

2020, the 13.2 acres of land remained idle as of the audit date of May 31, 2024. despite receiving Cabinet approval, had caused project activities to be stopped.

- (b) As of 31 December 2023, consumable materials (research) purchased in 2022, consisting of 14 items with a total value of Rs. 3,551,668, remain unused and underutilized. This consumable material was purchased for research planned in the year 2022, and this issue has arisen due to the technical difficulties that occurred in the laboratories. These materials (RESEARCH CONSUMABLE) are issued periodically based on the demand received from the laboratories. Further, since most of these consumables will not be expired, they can be used in the future. It is essential to avoid unnecessary accumulation of inventory, and prior to purchasing materials for research, the specific requirements should be identified.

3.2 Operational Inefficiencies

Audit Observations	Management Comments	Recommendation
(a) Out of the 29 research projects planned by the institution from the years 2021 to 2023, only 3 research projects are ongoing, while no action has been taken to commence the remaining 26 projects.	In the year 2023, the institution had generated an income of Rs. 8.2 million through the research projects. Due to the prevailing economic issues, many projects are being targeted for implementation through foreign grants and the economic challenges faced by the country have significantly impacted the expected outcomes, as the research equipment that was planned to be received from the ADB in 2023 had not been properly acquired.	Feasibility plans should be prepared, and a strategic plan should be prepared by including projects that are extending over more than one year. It should be amended with formal approval as needed and acted upon accordingly.
(b) Although the institution spent Rs. 117.5 million in 2023 on research and service providing activities, the institution has earned approximately Rs. 8.2 million from these. Accordingly, only 6.97 percent could be earned compared to the amount that had been spent.	In the year 2023, the institution had earned approximately Rs. 8.2 million from research services and due to the technical issues encountered in the laboratories, it was necessary to carry out upgrades and modifications within them, which hindered the ability to increase service revenue as planned. Therefore, this laboratory issue has significantly impacted the institution's ability to achieve the planned performance level.	The institution should work to achieve maximum results corresponding to the funds that have been spent.

3.3 Procurement Management

Audit Observations	Management Comments	Recommendation
As per Section 5.17 of the Procurement Guidelines Code, 2006, a maximum of 20 percent of the contract amount may be paid in advance. However, in purchasing office equipment for the institution, a payment of Rs. 4,761,878, which is 30 percent, has been made to a private company by exceeding the deposit limit.	Due to high inflation in the country during this period, 30 percent advance was paid based on the increase in commodity prices.	Advance payments should always be made in accordance with the circular rules and regulations.