

## **Industrial Development Board of Ceylon - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Industrial Development Board of Ceylon (“Board”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, 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 and Finance Act No. 38 of 1971. 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 Board 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 Board’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 Board or to cease operations or has no realistic alternative but to do so.

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

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

#### **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 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.

## **1.5 Audit Observations on the Preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Accounting Standards**

<b>Non-Compliance with Reference to the Relevant Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) In accordance with paragraph 57 of Sri Lanka Accounting Standards No. 19, the entity must use the actuarial method in calculating the employee benefit obligation. Although it was disclosed in the financial statements that such actuarial assumptions were used by the board, due to a calculation error, the employee benefit obligation, which should have been Rs. 146,328,424, was calculated as Rs. 188,634,080, resulted in the understatement of the profit for the year by Rs. 3,056,332 and other comprehensive income by Rs.39,249,324, while the employee benefit obligation in the statement of financial position was overstated by Rs.42,305,656.	The calculations mentioned in the observation are incorrect. An amount lower than the actual gratuity payable has been reported. But, according to the financial statements, the reported gratuity payable amount is correct.	According to the provisions of the standard, the employee benefit obligation should be calculated using the actuarial method.
(b) The Cess Fund grant of Rs. 10,500,000, which have been recorded under capital grants since before 2016, had not been amortized in accordance with paragraphs 26 or 27 of Sri Lanka Accounting Standard 20.	Actions will be taken to obtain board approval for the amortization of this grant.	Amortization adjustments should be made in accordance with the provisions of the standard.

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Sage 200 software, purchased for Rs. 4,320,000 in 2020, was not recorded as an asset but instead classified as a work in progress and, a capital expenditure of Rs.1,750,000 incurred in the year under review for upgrading the software was written off as expenses.	Actions will be taken to include the Sage 200 software into assets to make adjustments for depreciation.	Actions should be taken to accurately identify the value of intangible assets and to capitalize the capital expenditure.
(b) In 2021, a machine capable of producing Ayurvedic juice, valued at Rs. 465,000, in prepayment balance were donated by the board but had not been taken actions to account as donations.	Although it was physically settled, the accounts could not be reconciled due to the absence of vouchers. By now, the relevant payment voucher has now been received, and actions will be taken to proceed with the payment.	The balances should be identified and accurately adjusted with the relevant accounts.
(c) The deposit of Rs. 2,275,482 which had been made in 2023 had been settled in the year 2024, and it had been recorded as an expense in the financial statements for the year under review.	That the related expenses to be settled in the year 2024 had been incurred in the year 2023. Accordingly, the expense had been accounted for the year 2023 and the advance accounts had been settled for the same year as well.	Adjustments should be made in the financial statements on the date of settlement of the advance.
(d) The sum of the 03 asset accounts stated in the financial statements is Rs. 74,074,924, total of 02 income accounts Rs. 27,797,748, and a liability account worth Rs. 65,632,084 and in corresponding reports/schedules respectively, Rs.46,506,226, Rs. 39,768,530 and Rs. 64,907,063 and between the said balances Rs. 40,264,501 changes were observed.	Necessary actions will be taken to compare these balances with each other to accurately identify the correct balances and to make corrections in the 2024 year-end accounts.	Since the values presented in the financial statements must be confirmed by the corresponding values in the supporting reports, any discrepancies should be reconciled and corrected accordingly.

(e) The interest income of Rs. 4,850,853 received for the year under review on a savings account had not been recorded in the accounts.	The recording of interest income was missed due to an oversight error. This will be corrected through prior year adjustments.	Actions should be taken to accurately calculate and record the interest income.
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Cash Receivables

Audit Observation	Management Comment	Recommendation
The board has not taken actions to reconcile the amount of Rs.6,618,086 related to the year 2018 and prior years, as well as the Rs. 25,331,256 paid to the electricity board during the review year.	From time to time, efforts are made to reconcile prior payments balances during various occasions, which results in a reduction of these amounts.	Actions should be taken to reconcile prior payment balances timely and to promptly clear any old balances that have been outstanding for several years.

## 1.7 Non-Compliance with Laws, Rules, Regulations and Management Decisions

With Reference to Laws, Rules, Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a) Ministry of Finance and Mass Media Management Services Circular No. 5/2017 dated 25 October 2017	As per the circular, Rs.7,717,590 more had been paid as professional allowances from the year 2018, not based on the active service period.	The approval of the Secretary of the Ministry has been obtained for the payment of an engineering allowance of Rs. 15,000/-, and the allowance being paid by the approval of the board of directors.	As per the circular provisions, the professional allowances paid without considering the active service period should be recovered, as they are contrary to the legal regulations.
(b) Paragraph 2.4 of National Budget Circular No. 04/2022 of the Ministry of Finance dated 08 August	In 2023, 106 officials were recruited on a contract basis, of which 61 had been confirmed, contrary to the provisions outlined in the circular.	That in the progress review meeting held on 05 June 2023, it was decided to fill up the existing vacancies due to difficulties in providing the necessary services due to non-availability	Actions should be taken in accordance with the circular provisions, and the recruitment of essential staff should be carried out based on the approval of the

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of support staff. treasury.  
Accordingly, 110  
eligible persons have  
been promoted and  
appointed as per the  
recruitment procedure.

- (c) Para 9.1 (b) of Public Finance Circular No. 01/2020 dated 28 August 2020
- Although the maximum advance amount that can be provided to an individual at one time is Rs. 100,000, there had been 12 incidents where deposits ranging from Rs.125,000 to Rs.500,000, totaling Rs. 4,148,960, were granted, exceeding that limit.
- Such incidents may arise when other employees in the relevant departments are unable to obtain advances. In such cases, actions will be taken to grant them with special approval.
- If it is necessary to grant advances that exceed the limits stated in the circular, it must be done with the approval of the treasury.

## 1.8 Financial Management

### Audit Observation

### Management Comment

### Recommendation

The value amounted to Rs.1,228,365 of 59 cheques which had been deposited in two bank accounts had not been realized for a period of 1 to 11 months.

Corrective actions will be taken in the future.

Actions should be taken regarding the unrealized cheques in accordance with Financial Regulations.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 16,596,485, and the corresponding profit in the preceding year amounted to Rs. 126,732,525. Therefore, a deterioration amounting to Rs. 110,136,040 of the financial result was observed. The reasons for the deterioration are though the revenue from exhibitions had been increased by Rs.128,258,952 and government grants had been increased by Rs. 92,795,000 in the year under review compared to the preceding year; the amortization of grants had been decreased by Rs. 26,250,913, and selling and distribution expenses had been increased by Rs.281,429,002, and exhibition and event expenses had been increased by Rs. 20,579,223.

**3. Operational Review**  
**3.1 Management Inefficiencies**

<b>Audit Observations</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) In 2021, although the National Crafts Council placed an order for three machines valued at Rs. 3,850,740 for the Matara workshop which is under the Lanka Industrial Development Board, only one machine, valued at Rs. 351,000, intended for pulling cane from the forest has been completed and delivered to the Crafts Council, while the other two machines have not yet been finalized as at the end of April 2024.	The necessary actions are being undertaken to inspect the machine, conduct suitable refurbishment activities, and hand it over to the relevant institution.	The board must ensure that the operational process is properly implemented to fulfill its duty without delay.
(b) As of 31 December 2023, the unidentified deposit balance of Rs. 11,535,511 had not been identified and settled.	When online deposits exist with identical amounts, it becomes difficult to distinguish one deposit from the others, because of that, the amounts that cannot be resolved were transferred to the Deposit Pending Settlement account.	Unidentified deposit balances should be identified and promptly settled.
(c) In 2022, Rs. 3,754,298 had been paid for the purchase of scrap metal from the Wimala Surendra Power Station and due to the unavailability of the scrap copper metal, the board had not received that goods. Consequently, no actions had been taken to either recover the amount or obtain the goods.	Necessary actions are being taken to remove the scrap materials and distribute them to suitable contractors.	The board should be taken actions to recover the outstanding amount or to obtain the goods.

**3.2 Operational Inefficiencies**

<b>Audit Observations</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) The Industrial Development Board owns 733 plots of land	Efforts are ongoing to develop the vacant plots and attract new	It is essential to allocate the idle plots

across 16 industrial estates (except the Elpitiya Industrial Estate), of which 53 plots have remained unused for several years as they had not been allocated to industrialists. As of 31 December 2023, 26 factories had not been operated and closed, and no actions had been taken to allocate these to other industrialists. Moreover, 23 plots of land in 5 industrial estates owned by the board had been used for private residences.

investors while promoting investment at the rural level. Actions are continuously being taken to redirect private residents towards industrial use or to allocate these plots to new investors.

and factories to other industrialists and provide the necessary facilities to operate industries effectively.

- (b) On 17 August 2016, the Cabinet decision CP/16/1424/723/039 approved an allocation of Rs. 51 million for the renovation of buildings and salaries related to a Center of Excellence for Robotics Technology established at the Nawabima Technology Center, with government contribution, although robotic technology equipment valued at Rs. 35 million was installed in 2018 and 2019, the necessary staff recruitment and commencement of operations had not yet been taken place. This center, initially under the Ministry of Science and Technology, was transferred back and forth to the Ministry of Industries multiple times until the end of 2023. In 2023, expenditures incurred for this project included Rs. 5,164,149 for the IRB 2600 welding power source, Reproving of 45 existing Robot Cells, training two engineers for four days, and other expenses. Despite the project's initiation aimed at

Although we have made efforts to establish the Center of Excellence for Robotics Technology appropriately, this center had been operated under various ministries, and currently, the board does not hold ownership of this center.

However, actions are being taken to maintain and refurbish the robotic machines to facilitate future operations.

The project should be promptly restarted to ensure that its objectives are achieved.



providing resilience to industries in Sri Lanka and supporting their improvement and development, it had not been reached an operational level by 31 December 2023.

### 3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observations	Management Comments	Recommendation
(a) In 2016, a rubber injection molding machine was purchased for Rs. 9,318,026 for the Peliyagoda Rubber Development and Service Center, with objectives aimed at improving the quality of rubber-based products, minimizing the waste, enhancing the production efficiency, and reducing production cost, as well as introducing and promoting usage in small and medium industries. Since the purchase, training had been provided to only 328 trainees, and from the year 2020 to the date of audit of year 2024 this machine had not been in operational level.	Currently, maintenance work is being carried out on the injection molding machine.	Actions should be taken to ensure the efficient use of the machine.
(b) The Peliyagoda Rubber Products Development and Service Center had a total of 64 rubber-related machinery equipments, of which 26 machines had been inactive for a period ranging from 1 year to 39 years, and among these, a compressor valued at Rs. 85,560 had been stored with package without using since year 2017. Moreover, there were 17 types of raw materials and 284 types of spare parts that have remained unused for a	The items identified as non operative machinery, raw materials, and spare parts have been referred to the Board of Survey for disposal. A consultancy committee will be appointed to facilitate their disposal. In cases where the very old existing compressor is out of order, it takes a long time to refurbish, so the new machine has been used and old one kept for future use.	Actions should be taken to prepare a proper plan to utilize unused machines, and dispose inactive machines.

period ranging from 1 year to 17 years.

- (c) In 2020, the UNIDO organization provided 12 pieces of machinery worth USD 101,130 and goods valued at USD 1167.44 to the board, which had been installed in the Laksala building to temporarily establishing a Bamboo wood training center. In September 2022, due to the transfer of this training center building to the National Crafts Council, the machinery and equipment had been removed and stored in a building in the Katubedde Nawabima area and these items remained unused and inactive as of May 2024.
- Although plans had been made to establish the Bamboo wood training center in the Nawabima area, the building's maintenance activities by the Civil Engineering Division have only recently been completed and it is expected that machinery will be installed immediately, and training activities will commence thereafter.
- Actions should be taken to use resources efficiently and to achieve the objectives of the project.

#### **4. Accountability and Good Governance**

##### **4.1 Annual Action Plan**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the action plan for the year 2023, out of the 83 activities planned for 7 sectors, 18 activities have not been carried out.	Although the expected activities were decided at the beginning of the year, there is a possibility of minor reductions being observed during the implementation phase.	All influencing factors should be considered when planning activities and actions must be taken to execute the planned activities.