

## **Industrial Technology Institute - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Industrial Technology Institute (“Institute”) 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 institute as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 Public Sector 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 intends 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 Institute.

#### **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 Institute'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 Institute'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 Institute 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 Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law or other general or special directions issued by the governing body of the Institute.
- Whether the Institute has performed according to its powers, functions, and duties; and
- Whether the resources of the Institute 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**

	<b>Non-Compliance with reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>(a)</b>	Although assets and liabilities should not be offset according to paragraph 48 of Sri Lanka Public Sector Accounting Standard No. 01, payable balances has been included in debit and credit balances of Rs.16,508,536 and Rs.9,956,010, respectively.	The necessary actions will be taken to settle these balances.	The correct values of assets and liabilities should be shown in financial statements.
<b>(b)</b>	Although the cost of inventory should be valued using either the First-In, First-Out (FIFO) method or the Weighted Average Cost (WAC) method according to paragraph 35 of Sri Lanka Public Sector Accounting Standard No. 09, the simple average cost method had been used instead, and the inventory had been valued at	Due to the lack of facilities in the existing computer system to value inventory based on the weighted average cost method, the simple average method has been used for inventory valuation. Steps are being taken to install a new computer system with this facility.	The cost of stock of goods should be calculated in accordance with accounting standards.

Rs. 47,484,214 as at 31 December 2023.

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the creditor balance should have been Rs. 77,421,924 as at the end of the year under review, the creditor balance was shown as Rs. 61,059,304 after offsetting a balance of Rs.16,562,135 receivable from those creditor institutions, as a result, both creditors and debtors had been understated by Rs. 16,562,135 in the financial statements.	The debtor balance shown in the ledger as Rs. 74,544,110 in the financial statements and it had been reduced by Rs. 50,748,008 for the provision of doubtful debts for balances over one year, resulting in a net value of Rs. 23,796,102.	The balances of debtors and creditors should be correctly shown in the financial statements.
(b) Unidentified direct bank debits amounting to Rs. 4,581,481 as at 31 December 2023, had not been identified during the year under review and had been shown as payable expenses under current liabilities in the financial statements.	The value of these unidentified deposits has been reduced to Rs. 4,581,481. Necessary reconciliations are continuously being carried out to identify the relevant depositors. The bank has been informed not to accept funds into the bank account without an invoice number.	A system should be installed to properly identify unidentified direct bank debits.
(c) Due to the double counting of funds deposited online by customers for services provided by the institution, the debtor balance in the financial statements had been understated by Rs. 4,844,388 and the cash balance had been overstated by the same amount and this value had been included in the bank reconciliation statement as unrealized deposits.	This is a computer software error. Instructions have been given to account for online deposits on the date they are realized to prevent this situation in the future.	A control system should be maintained to properly carry out accounting activities and prevent double counting errors.

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| (d) | The provision for doubtful debts amounting to Rs. 49,666,848 which had been reflected in the financial performance statement had not been adjusted to the surplus of the year as a non-cash transaction in the cash flow statement.   | Actions will be taken in the future to reconcile the provision for doubtful debts with the cash flow statement.   | The cash flow statement should be prepared accurately.           |
| (e) | An amount of Rs. 9,676,185 adjusted to the accumulated fund in the statement of financial position had been reconciled with the operating surplus under non-cash transactions in the cash flow statement.   | This will be examined and removed from the cash flow statement and processed.   | The cash flow statement should be prepared accurately.           |
| (f) | While changes in net working capital should be reconciled with changes in current assets and current liabilities when preparing the cash flow statement, a reduction in investments of Rs.40,000,000 shown under non-current assets had been included instead.                                | The reconciliation has been done under non-current investments because these investments exceeded three months.   | The cash flow statement should be prepared accurately.           |
| (g) | The total expenditure of Rs.40,711,887 incurred from 2019 to the year under review for the construction project of the China-Sri Lanka Biotechnology Research Laboratory had been shown as a receivable balance instead of being included under work in progress in the financial statements. | The completed portion has been transferred to asset/expense accounts, and the remaining portion has been carried forward as a balance; since this is a project, it has not been included under work in progress of the institution. | Expenses should be accurately presented in financial statements. |

### 1.5.3 Unreconciled Control Accounts or Records

	<b>Item</b>	<b>Amount as per Financial Statements Rs.</b>	<b>Amount as per Corresponding Record Rs.</b>	<b>Difference Rs.</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Debtors Balance	77,960,928	74,544,110	3,416,818	Conducting necessary reconciliations to identify the reasons for the difference.	In the debtors aging analysis, the debtors balance should be reconciled with the balance in the financial statements.
(b)	Provisions for Gratuity	14,288,849	15,258,114	969,295	This is a typing error made during the preparation of the financial statements.	Financial statements should be prepared including the correct provision values.

### 1.5.4 Documentary Evidences not made available for Audit

	<b>Item</b>	<b>Amount Rs.</b>	<b>Audit Evidence not Available</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Balance receivable	5,143,900	Information documents required to confirm balances receivable over a period of 3 to 16 years as of the end of the year under review.	/ The institution has informed that balances outstanding for over 10 years will be written off in future years, and money for refundable air tickets can be offset against the purchase of future air tickets.	Information should be maintained to obtain proper confirmations for receivable balances at the end of each year. Special measures should be followed to collect these balances.
(b)	Transfer of funds between bank	59,844,380	Proper authorizations for transfers	Taking actions to obtain the approval of the Director General.	Transfers of funds between bank accounts should be carried out with

accounts.

proper written  
authorization.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Cash Receivable

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The outstanding balance of Rs.94,691,793 had been outstanding for a period ranging from 2 to 17 years and out of this balance, Rs. 16,561,557 should be recovered from 19 officers who had been violated the conditions of foreign scholarship agreements. Additionally, since 2022, a total write-off had been made for an outstanding balance of Rs.11,415,309 due from a state corporation.	Actions are being made to write off balances that have been outstanding for over 10 years in the future years and the amount of Rs. 4,020,392 to be recovered from 17 officers who violated foreign scholarship agreements could not be collected as those officers have left the country. Many of their guarantors have also left the country, and some are no longer alive. Necessary actions are currently being taken with the Attorney General's Department regarding two officers who violated agreements worth Rs.12,541,165.	Outstanding balances should be collected as soon as possible.

### 1.6.2 Cash Payable

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Since 2014, actions had not been taken to settle the outstanding balance of Rs.8,768,889 from 8 inactive research projects.	These outstanding balances will be repaid or adjusted to income based on the confirmations of the relevant officers.	Action should be taken to clear the relevant outstanding balances.

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

	<b>Reference to laws, rules, regulations, etc.</b>	<b>Non-compliance.</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i)	Financial Regulations 371(5) of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 August 2020	Actions had not been taken to settle the outstanding advance balance of Rs. 25,496,730 given for purchases, which had been carried forward from 2018 to 2023.	Works related to these advance payments is being carried out promptly.	Advances should be settled by 31 December of the relevant year.
(ii)	Financial Regulation 756	Actions had not been taken to submit the Board of Survey reports for the year 2023 to the Auditor General.	The Board of Survey for 2023 is currently being carried out.	The Board of Survey activities should be completed and the reports should be submitted to the Auditor General by the due date.
(iii)	Section 6.6 of the Operations Manual for State Enterprises introduced by Public Enterprise Circular No. 01/2021 dated 16 November 2021.	A copy of the annual draft report for the year under review had not been submitted to the Auditor General by the audit date of 03 June 2024.	Actions are being taken to submit it to the Auditor General very promptly.	According to the circular, the annual draft report should be submitted by the due date.

## 1.8 Cash Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although there was a balance of Rs. 2,443,512 in three inactive bank accounts as at 31 of December of the year under review, actions had not been taken to utilize or invest this balance for over 7 years.	The cash in these accounts, which were started for various tasks, will be transferred to the institution in the future.	The necessary actions should be taken to utilize or invest the balance of inactive bank accounts.



## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review amounted to a surplus of Rs. 92,240,946, and the corresponding surplus in the preceding year amounted to Rs. 27,510,988. Therefore, an improvement amounting to Rs. 64,729,958 of the financial result was observed. Despite an increase in bad debt provisions by Rs. 61,774,962 and contractual service expenses by Rs.37,495,718 during the year under review, the increase in standard service income by Rs.71,669,307 and revenue grants by Rs. 100,000,000 mainly contributed to this growth.

## **3. Operational review**

### **3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Among the 59 research projects completed with a value of Rs.85,738,759 in treasury allocations from 2018 to 2022, 56 technologies related to 18 research projects worth Rs. 28,625,249 had been developed. However, only 6 technology transfers related to 4 of these research projects had been carried out. Despite the development of 50 technologies related to 14 research projects costing Rs. 27,039,217 over a period of 1 to 3 years, these technologies had not been transferred by the time of the audit, resulting in the country missing out on potential economic benefits from their effective use. Additionally, solutions discovered through research had not been leading to minimal utilization due to the fact that they had not been directed towards addressing identified issues in various sectors such as food, health, and environment.	The ITI Business Center was recently established with the aim of further strengthening the technology transfer mechanism and increasing the number of technology transfers.	Technological discoveries from completed research should be properly developed, and necessary actions should be taken to transfer new technologies in a way that they can be utilized for the country's well-being.

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| (b) | Although research teams of the institution had been received payments amounting to Rs.59,915,608 as research grants for the years 2020, 2021, and 2022, they did not provide sufficient contributions to the areas of improving the quality of products, enhancing the technological processes and methods used in industries, and conducting research to discover new processes and methods for use in industries, which are the primary objectives of establishing the institution to elevate the technological level of Sri Lanka. | At present, this is not a fully government-funded institution, and research and development activities are carried out according to the needs of the industries. | When paying research grants, the effectiveness and success of technological discoveries should be evaluated.                                  |
| (c) | Although laboratory equipment purchased between 2003 and 2013, valued at Rs. 9,943,423, remained unused, and they had not been taken proper actions to repair or sell.  | Since repairing this equipment is disadvantageous, actions are being taken for its disposal.   | Actions should be taken to properly dispose of unused laboratory equipment.   |
| (d) | Equipment and laboratory instruments, computers and computer accessories, wooden furniture, and office equipment worth Rs. 2,367,736 related to the CML (Chemical & Microbiological Laboratory) section have not been physically verified since 2022.   | These devices have been calibrated and identified as assets in 2023.   | All assets must be physically verified annually.  |
| (e) | The new technologies discovered through 05 research projects which had been carried out by the Materials Technology Laboratory during the last 05 years using treasury grants of Rs.9,020,103 had been remained unused had not been transferred even by the last day of the year under review. Although research had been conducted in 2018 on improving the thermal conductivity of Nano   | Although technologies developed in a certain year may not be transferable within that year, technology transfers can still be carried out in subsequent years.   | A procedure should be introduced to identify parties for utilizing new technologies discovered through research for the country's well-being. |

composites using rubber and graphite, research on reducing vehicle emissions using Nano particle catalysts, and developing environmentally friendly polythene and food wraps as alternatives to harmful polythene, the parties for technology utilization had not been identified. The benefits of efficient use of these technologies to add value to local resources and the opportunity to apply them in the local industrial sector had been also missed.

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| (f) | The institution's ability to generate income had been limited due to delays in technology transfers caused by not implementing a stronger marketing strategy to find industrial partners for technology transfers.  | Efforts are being made to identify a strong market through the ITI Business Center.   | A procedure should be introduced to identify parties for utilizing new technologies discovered through research for the country's well-being.   |
| (g) | Although the institution had approximately 486 technologies, they had not been physically documented or preserved as software in a secure repository. As a result, there had been a risk of losing these technologies due to incidents such as researchers leaving the institution, retiring, passing away, moving to another institution, or going abroad. | Maintaining a technology bank to store technology data (technology specification data) is very timely.  | Technological discoveries should be properly preserved, and necessary actions should be taken to transfer new technologies in a way that they can be utilized for the country's well-being. |
| (h) | An accredited state-of-the-art pharmaceutical laboratory, including GLP status, with facilities at par with advanced pharmaceutical laboratories in developed countries, had been maintained in the institution from the year 2019 at a cost of Rs.99,423,972 from treasury allocations and the National  | A laboratory was established based on government guidance and financial support to streamline the testing of pharmaceutical products imported by locally producing companies. Although it is expected that the National Medicines Regulatory Authority will make policy changes in the Ministry of Health | Initiating such large capital-intensive projects should be based on proper feasibility studies and planning. Actions should be taken to achieve the main objective of establishing this     |

Medicines Regulatory Authority had not been taken actions to utilize the services of this laboratory for the procurement and distribution of all Western medicines, including those supplied to the hospital system in the country. As a result, the primary objective of establishing this laboratory as an independent accredited third-party testing facility for the development of the pharmaceutical sector in Sri Lanka had not been achieved.

to mandate third-party, independent testing of the quality of pharmaceutical products for initial registration and subsequent annual registration, manufacturers and importers do not come to the institution because the National Medicines Regulatory Authority does not mandate third-party testing.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>According to the Cabinet decision No. CP/16/1576/19/96 dated 31 August 2016, Rs. 117.7 million had been spent to procure and install equipment for the mineral oil and lubricants laboratory to conduct third-party testing of mineral oil products in compliance with the regulations of the Public Utilities Commission of Sri Lanka; and due to the lack of a mechanism for sending mineral oil samples, the primary duty of establishing the laboratory had not been fulfilled. Currently, there is a public perception in the country that there are issues regarding the quality of mineral oils imported into the country, and this task had not been accomplished by the established laboratory.</p>	<p>Since there is no regulatory authority for this mineral oil laboratory, not all samples are received at our laboratory. As this process is a national necessity, actions are being taken to implement it as soon as possible based on the full commitment of the Ministry of Power and the Public Utilities Commission, according to the Cabinet decision.</p>	<p>A mechanism for obtaining mineral oil samples should be established.</p>

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

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
As of the audit date of 31 May 2024, 04 equipment valued at Rs.2,202,614, essential for providing pharmaceutical testing services at the Malabe Herbal Technology Section, remained inactive and necessary steps had not been taken to repair or properly dispose of these equipment.	The procurement section is currently undertaking repairs on parts of the Pilot Freeze Dryer and GR Microwave System. Actions are being taken to remove all other assets from the inventory.	Repairs should be carried out to bring the equipment to active condition and put them to use.

### 3.4 Human Resource Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although the approved staff for the institution in the year under review was 439, the actual staff was 286, resulting in 153 vacancies for 44 positions.	Due to the government policy of temporarily suspending recruitments, obtaining approval from the Ministry of Finance for recruitments is difficult and recruitments are currently being carried out gradually.	Necessary actions should be taken to fill the vacancies.