

## **Head 187 - Ministry of Investment Promotion**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Head 187 - Ministry of Investment Promotion for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and statement of financial performance 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. The summary report containing my comments and observations on the financial statements of the Ministry of Investment Promotion was issued to the Chief Accounting Officer on 28 May 2024 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 27 May 2024 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements of the Ministry of Investment Promotion give a true and fair view of the financial position of the Ministry of Investment Promotion as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

The Chief Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to provide 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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As a part of the audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding the significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

#### **1.5 Report on Other Legal Requirements**

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

## 2. Financial Review

### 2.1 Expenditure Management

| <b>Audit Observation</b>   | <b>Comments of the Chief Accounting Officer</b> | <b>Recommendation</b>  |
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| No amount of the provision allocated from the Annual Estimate in the year under review to one recurrent head and 3 capital head totaling to Rs.2,750,000 had been utilized. Further, out of the net provision of Rs.50,000,000 allocated to recurrent head 187-2-4-5-1409, only an amount of Rs.129,245, i.e. 0.2 percent had been utilized. | Accepted.                                       | As per the Financial Regulation 50, estimate should be prepared completely and accurately as possible. |

## 3. Operating Review

### 3.1 Non-achievement of expected Outcome

| <b>Audit Observation</b>  | <b>Comments of the Chief Accounting Officer</b>   | <b>Recommendation</b>   |
|---|---|---|
| (a) During the year 2021, with the purpose of developing knowledge of Information Technology of community, 2 Information Technology Parks (IT parks) in the areas of Jaffna and Mannar had been established under the Ministry of North East Development, Rehabilitation and Reconstruction and these IT parks which were under 11 Ministries time to time, had been transferred to the Ministry of Investment Promotion in accordance with the Extra Ordinary Gazette No. 2289/43 dated 22 July 2022. Even though, definite cadre had not been identified and proper approval had been obtained, 47 staff members for Jaffna IT parks and 12 staff members for Mannar IT park had been recruited. However, the staff for Jaffna IT park and Mannar IT park had decreased to 7 and 6 staff members respectively as at the current year. Due to the non-preparation of | On the date of 25 October 2023, a discussion with relevance to the transferring IT parks to Vocational Training Authority had been conducted with the Vice President of Vocational Training Authority which was headed by State Minister. Accordingly, as the functions of transferring these IT parks to Vocational Training Authority are carrying out, the taking actions for the request of officer in charge of Jaffna IT park had been adjourned. | A complete Supervision on behalf of the functioning of IT parks should be carried out by the Ministry and prompt actions should be taken for necessary functions. |

Scheme of Recruitments, an officer in Grade II in the Service of Development Officer had been recruited for the post of Executive Officer in Jaffna IT park. However, the Ministry had not taken necessary actions regarding existing vacancies in these parks, programmes for attracting students and introduction of new courses.

- (b) Even though, it was planned to register 320 students for the 11 Certificate Courses and Diploma courses and 3 Workshops on Online and Internet Technology under Jaffna IT park within the year under review, the number of students who registered for 2 courses and one Workshop was 43, i.e. 13 percent. It was further observed that number of registered students from the year 2020 to the year 2023 had been gradually decreased from 126 to 43. Similarly, even though the expected number of students for 10 courses under Mannar IT park was 300, number of students who had registered for 3 Courses was 155. Although, the expected income of the course fee income for the 2 parks in Jaffna and Mannar was Rs.1,129,000 and Rs.2,185,000, it was collected only Rs.131,080 from Jaffna Park and Rs. 833,500 from Mannar Park for the Government Revenue due to the decrease in the number of registered students. The cost incurred for the maintenance of parks and conducting courses in Jaffna and Mannar IT parks during the year under review was Rs.6,330,201 and Rs.4,999,863 respectively. Accordingly, 2 parks had spent Rs.10,365,484 in excess to the income collected from 198 students.
- Necessary actions are being taking - do - to transfer the IT parks to the institute such as Vocational Training Authority which has the ability to operating the IT parks effectively and student attraction are mostly depended on the highly accepted institutes.

### 3.2 Delays in the execution of the projects

| Audit Observation  | Comments of the Chief Accounting Officer   | Recommendation   |
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| (a) The Colombo Port City Development Project was initiated as a proposal to reclaim land adjacent to the Colombo Port to expand the city of Colombo to meet the ever-increasing demand for land. This project was suspended due to the policy changes of the Sri Lankan government. As a result, the project company had applied for a compensation amount of USD 143 million and instead, a commercial land of 2 hectares had been given to the project company. The assessed value of this land had not been recorded and there was a loss to the Government either in compensation or in the value of the land.  | Cabinet Memorandum Number: PMO/06/03/CM/70/2016 dated 14 July 2016 is the reasons for this.  | Actions should be taken in a manner that does not cause any loss to the Government.  |
| (b) Although the estimated cost for a temporary solution for managing wastewater in the port city was Rs.1,000 million until a permanent solution is provided, due to changes in the plan and rising costs, the estimated cost had been increased to Rs.3,700 million. According to the tripartite agreement of the Colombo Port Development Project, though this work was supposed to be completed in the year 2019, the project's work had started in December 2022. Although, amount of Rs.1,600 million had been given by the Treasury during 2017-2019 period, but the project had not been completed even by 30 September 2023. Also, though the work of the permanent solution, which was estimated at a total cost of Rs.2,900 million, was to be completed in the year 2022, the work on this project had not yet started by 30 September 2023. As both the temporary and permanent solutions had not been started by the year 2022, it was observed that the Rs.3,700 million spent on the temporary solution is a loss to the | Due to the Covid-19 pandemic and the global economic crisis in 2020 and 2021, it was not possible to start this project or allocate money for it. Its activities started in December 2022. Due to changes in the plan and increasing costs, the project's estimated expenditure has increased from Rs.1,000 million to Rs.3,700 million. As a temporary solution, by repairing the existing drainage pump stations and pipes in the southern part of the Colombo Municipal Council area, it is possible to meet the daily drainage needs of the port city with a capacity of 5,000 cubic meters. This will maintain the southern drainage connection, while a decision | The Covid-19 pandemic and the global economic crisis that occurred during 2020 and 2021 did not impact the completion of the temporary solution under Rs.1000 million in 2019. Actions should be done in accordance with tripartite agreement. |

government due to non-focus of Ministry on implementing the permanent solution.

was made to proceed with the northern drainage connection project. Additionally, this led to the decision to complete the northern drainage connection within a period of three years.

- (c) According to clause 24.1.2 of the tripartite agreement, although the coastal area within the 91 hectares of common land in the port city should belong to the Government of Sri Lanka, the project company had temporarily leased the coastal land to several restaurants and collected revenue from them.
- Allocating plots of land for various business activities is not a task of the project management unit and it was a responsibility of the Colombo Port City Economic Commission. The Colombo Port City is a construction site of a special economic zone, and all maintenance and related activities are carried out by the Colombo Port City Development Project Company without incurring any costs. Therefore, the revenue generated from these activities is collected by the project company.
- Action should be taken in accordance with the tripartite agreement.
- (d) According to schedule 10 of the tripartite agreement, although the development of 118 land plots, including commercial, public, and road land, was to be completed by 16 September 2019, completion certificates had been issued to only 85 land plots by 30 September 2023. Furthermore, although roads, bridges, and drainage works were to be completed by 14 March 2020, they were completed more than 50 percent by 30 September 2023, and the construction was not finished. Landscaping works, which were to be completed by 9 March 2020, were only 77 percent completed by 30 November 2023. Eventhough, The South sewer line, which was planned to be completed by 7 Phases, was to be finished by 11 July 2023, but
- After the company submits the necessary documentation, both the project management unit and the Ministry will take necessary action to issue for the remaining plots of land and the project is expected to be completed within eight years, by covering the items that have impacted through external factors such as the COVID-19 pandemic and economic challenges according to the project's timeline.
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three phases of that was under planning stage even as at 30 September 2023.

- (e) According to the tripartite agreement, the allocation of land for the public area, marketable land (GOSL), marketable land (project company) was 91 hectares, 62 hectares and 116 hectares respectively. However, the actual allocated land areas were 93.65 hectares, 60.85 hectares, and 118.16 hectares, respectively, resulting in an excess allocation of 3.66 hectares.
- Paragraph 10 and 11 of schedule 14 outline the manner for allocating additional land. The first Paragraph of the shedule 14 provides a mechanism for the fair allotment of additional land between the Government of Sri Lanka and the project company.
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- (f) Techno Park Development Private Limited was incorporated on 29 September 2021 as a wholly owned Government company. This company was transferred to the Ministry of Investment Promotion by Extraordinary Gazette No. 2289/43 and dated July 14, 2022. Although a Board of Directors was appointed in the beginning, it was not functional due to periodic resignation of its members. The financial statements of the company were not prepared and submitted for audit in terms of Sections 43(i), (iii) & (iv) and 43(2) of the Articles of Association. Further, annual reports were not prepared as per Section 43(5) of the Articles of Association.
- That this Ministry requested the Secretary to the President to appoint a Chairman and Board members for Techno Park Development Private Limited and that the currently board members are appointed. That it has not been possible to prepare the annual reports as there is no activity as a company due to the resignation of the company's board of directors.
- The financial statements should be submitted for audit as per No. 01/2021 and 6.6 of the Public Enterprises Circular dated November 16, 2021, and action should be taken accordance with Articles of Association.
- (g) Although the Secretary's to the President letters dated 08 April 2021 and 17 June 2021 had informed that 31 acres, 23 rood 02 perches and 50 acres of land should be obtained for Galle and Kurunegala Techno Parks, only 29 acres, 03 rood 7.15 perches were obtained for Galle and 20 acres for Kurunegala. Furthermore, supervision of the ministry had not been focused regarding the process of providing alternative land for the two houses located on the Kurunegala land.
- Although the letter of the Presidential Secretariat dated 08 April 2021 had informed to acquire 31 acres 02 rood 23 perches, according to the handover certificate issued by the Divisional Secretary Akmeemana, only 29 acres 03 rood 7.15 perches have been handed over to the Ministry of Technology. The Ministry does not have the latest information related to the land
- The reasons for the relevant changes should be found.

acquisition process and the information regarding the provision of alternative land for the construction of the two houses at this time and the officials of the Ministry were instructed to look into the information from the Kurunegala Divisional Secretariat.

- (h) The engineering consultant of Galle Techno Park was to be paid Rs.18,173,751 from April 2022, the engineering consultant of Kurunegala Park was to be paid Rs.36,188,088 on as at 31 December 2023 and the construction contractor of Galle Park was to be paid Rs.950,601,926 as at 31 March 2022.
- Bills have been received from the Central Engineering Consultancy Bureau and the resignation of the company's board of directors in the year 2022 has led to the suspension of the company's operations.
- Actions should be taken in accordance with the contract agreement and confirmations of payments should be obtained.
- (i) Even though Galle and Kurunegala Techno Parks were started in 2021 and 2 years has passed, construction work had been stopped even as at the date of physical inspection on 05 February 2024. Due to this delay, as per Clause 14.6 of the Galle and Kurunegala Techno Park Contract Agreements, Techno Park Development Pvt Ltd should have paid Rs.236,355,010 and Rs.416,802,172 respectively as default charges to the contractor. Accordingly, the loss to the government was Rs.653,157,182.
- The project was active only till April 2022. As per Ministry of Finance No. 03/2022 on Public Expenditure Control and Budget Circular dated 26 March 2022, construction activities were suspended due to lack of funds. Further, the Board of Directors of Techno Park Development Pvt Ltd resigned on 25 August 2022. Accordingly, no work has been done on the project. The project company has demanded interest for delay from the Ministry of Investment Promotion.
- Actions should be taken in accordance with the contract agreement.



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| (j) | Although the company that was selected for the construction of the proposed Techno Parks in Nuwara Eliya and Kandy had submitted the project proposal on 16 November 2021 and 24 February 2022, the construction work had not started by the date of reporting. | Agreed with the observation. | Actions should be taken according to the time frame of the project report. |
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### 3.3 Asset Management

| <b>Audit issue</b>  | <b>Comments of the Chief Accounting Officer</b>  | <b>Recommendation</b>   |
|---|--|---|
| 16 vehicles that were given to the Ministry from other government institutions were still being used by the Ministry even as at 31 December 2023 without transferring and registering the ownership. Accordingly, assets were kept in custody contrary to Asset Management Circular No. 02/2017 dated 21 December 2017 issued by the Comptroller General. | Since the Ministry does not have a suitable vehicle for the use of the State Minister, one of them has been given to the State Minister by the Chief Secretary of the Central Province and the Ministry is in the process of handing over the vehicles used by the Ministry. | Actions should be taken in accordance with circular provisions. |