

Industrial Development Board of Ceylon

1. Financial Statements

1:1 Disclaimer of Opinion

Because of the significance of the matters described in paragraphs 1.2.1, 1.2.2, 1.2.3, 1.2.4 and 1.2.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The financial statements had not been prepared and presented in accordance with the format framework by following the Accounting Standards introduced from the year 2012.

1:2:2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The value of the two double cab motor vehicles supplied to the Board by the Treasury on lease basis amounting to Rs.12.2 million and the depreciation thereon amounting to Rs.2.4 million had not been shown in the financial reports of the year under review. Nevertheless, the semi-luxury tax on the two motor vehicles and the registration fee amounting to Rs.87,755 had been brought to account as fixed assets and that had been depreciated for Rs.17,551.
- (b) The written down value of the sundry assets valued at Rs.546,352 shown in the Schedule of Fixed Assets of the year under review had not been included in the financial statements.

- (c) The details of the additions valued at Rs.12,639,162 made to the building in the year 2011 had not been shown in the Schedule of Fixed Assets.
- (d) The Bank balance of the Divi Neguma Project as at 31 December of the year under review amounting to Rs.3,666,095 had been shown as the work-in-progress in the balance sheet instead of being classified as the Bank balance.
- (e) Even though a sum of Rs.12,895,522 had been shown as the Value Added Tax Receivable under the current assets in the statement of financial position, it had been shown as Rs.567,848 in the Tax Return as at 31 December 2012 furnished to the Department of Inland Revenue. As such, Value Added Tax amounting to Rs.12,327,674 that cannot be recovered in the future had been shown in the current assets.
- (f) Goods and Services Tax Receivable not in operation at present amounting to Rs.1,424,654 had been shown under the current assets.
- (g) The following observations are made in connection with the cash flow statement.
 - (i) The balance of fixed deposits over 03 months amounting to Rs.25,000 had been included in the opening and the closing cash balance in the cash flow statement.
 - (ii) Interest expenses amounting to Rs.19,644 had not been correctly shown in the cash flow statement.
 - (iii) An unexplained sum of Rs.5,311,000 had been adjusted under the pre-tax loss in the cash flow statement as prior year adjustments.
 - (iv) Even though the net grant from the Government according to the financial statements amounted to Rs.14,887,216 it had been shown as Rs.18,000,000 in the cash flow statement.
 - (v) A sum of Rs.3,113,000 not representing investments had been shown under the Investment Activities in the cash flow statement.
- (h) A reconciliation of the value shown under the fixed assets in the Statement of Financial Position with the Schedule of Fixed Assets revealed understatement of four items of fixed assets totalling Rs.506,573 and overstatement of six items of assets totalling Rs.3,186,235.

1:2:3 Unexplained Differences

- (a) Even though the stock of scrap material as at the end of year amounting to Rs.5,060,052 as appearing in the bin cards had been shown in the financial statements, that stock had not been physically examined.
- (b) The Pay As You Earn Tax and the Nation Building Tax appearing in the Tax Return submitted to the Commissioner General of Inland Revenue had been shown as Rs.1,286,073 in the financial statements, thus overstating that amount by a sum of Rs.842,733.
- (c) The balances payable to the Funds as at the end of the year under review as appearing in the Returns furnished by the Board to the Employees' Provident Fund and the Employees' Trust Fund, had been understated in the financial statements by sums of Rs.244,841 and Rs.34,818 respectively.
- (d) The scrap purchases and sales shown in the financial statements of the Board for the year under review had not been reconciled with the records maintained by the Marketing Division. As such, scrap purchases had been overstated by a sum of Rs.8,056,748 and scrap sales had been understated by a sum of Rs.141,822 in the financial statements.
- (e) Even though a sum of Rs.12,895,522 had been shown under the current assets of the Statement of Financial Position for the year under review as the Value Added Tax Receivable, it had been shown as Rs.567,848 in the Tax Return submitted to the Department of Inland Revenue. As such, a difference of Rs.12,327,674 was observed.

1:2:4 Accounts Receivable and Payable

(a) Accounts Receivable

The following matters are observed in this connection.

- (i) According to the age analysis of debtors, the value of debtors older than 05 years amounted to Rs.32,585,627 and proper courses of action had not been taken for the settlement of those balances.
- (ii) Debtors balances amounting to Rs.58,419,824 shown in the financial statements had not been confirmed. Even though the management was requested to furnish the confirmation of balances to audit, it had not been so done.
- (iii) Action had not been taken to settle 23 balances receivable totalling Rs.20,725,888 remaining over periods exceeding 03 years shown under the current assets in the financial statements.

(b) Accounts Payable

The following observations are made.

- (i) Confirmation of 44 balances of accounts amounting to Rs.112,869,335 according to the creditors age analysis as at 31 December 2012 had not been furnished to audit.
- (ii) Erroneous values had been shown in the Refundable Deposit Accounts amounting to Rs.5,873,965 relating to 239 industrialists who were observed to have left the Industrial Estates.
- (iii) Even though the transfer of Government lands had been prohibited, deposits amounting to Rs.14,843,613 obtained from 126 industrialists for the transfer of Government lands in the Industrial Estates had not been settled over a number of years.
- (iv) Action had not been taken to settle the creditors balances amounting to Rs.81,096,571 existing over a period exceeding 03 years.

1:2:5 Lack of Evidence for Audit

 The evidence indicated against the following items of account had not been furnished to audit.

| <u>Particulars</u> | <u>Value</u> Rs. | <u>Evidence not made available</u> |
|---|---------------------|------------------------------------|
| Lands | 58,470,313 | Detailed Schedules |
| Work-in-progress | 14,298,021 | Verification Reports |
| Scrap Stocks | 5,060,052 | Verification Reports |
| Finished Stocks | 2,480,536 | Verification Reports |
| Raw Materials purchased for the Rubber Goods Development Centre, Peliyagoda | 21,679,394 | Stock Ledger |
| Bank Balances | 19,529,989 | Confirmation of Balances |

1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The following instances of non-compliances were observed during the course of audit.

| <u>Reference to Laws, Rules, Regulations and Management Decisions</u> | <u>Non-compliance</u> |
|---|--|
| (a) Establishments Code of the Democratic Socialist Republic of Sri Lanka-Chapter xiv Sub section 4.1 | Even though the combined allowance and the transport expenses can be paid to the officers on field duty to defray their expenses, in addition to that, lodging allowance had been paid for carrying out the duties of Divi Neguma Project. A sum of Rs.40,856 had been paid in that connection from January to March 2012. |

(b) Government Financial
Regulations

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- | | | |
|-------|--|--|
| (i) | Financial Regulations 104 and 109 | Even though the cash balances amounting to Rs.132,107 shown in the financial statement existed over a number of years, those did not exist physically. Action in terms of Financial Regulations had not been taken in that connection. |
| (ii) | Financial Regulation 110 | A Register of Losses and Damage had not been maintained. |
| (iii) | Financial Regulation 453 | A Register of Personal Emoluments had not been maintained. |
| (iv) | Financial Regulation 751(1) and Section 52(1) of the Manual of Stores Procedure of the Board | The Storekeepers had not maintained a Stores Ledger. |
| (v) | Financial Regulation 772 | Proper courses of action had not been taken on the goods in respect of which the Board of Survey Reports over a number of years had pointed for disposal by taking suitable action. |
| (vi) | Financial Regulation 802 –(1),(2) and (3) | The relevant 37 registers and files required for the examination of the sum of Rs.3,178,180 spent on repair and maintenance of motor vehicles were not furnished to audit. |
| (vii) | Financial Regulation 1645(a) | Motor Vehicle Log Books of 08 motor vehicles had not been maintained properly. |

(viii) Financial Regulation 1645(b) and (c) Financial Regulation 1646

The Daily Running Charts and the Monthly Performance Summaries of motor vehicles had not been furnished to audit before the fifteenth day of the month following.

(c) Circulars

(i) Treasury Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained for the fixed assets valued at Rs.242.6 million shown in the financial statements.

(ii) Treasury Circular No. 1A1/2002/02 of 28 November 2002

A Register of Fixed Assets had not been maintained for the computers, accessories and software valued at Rs.8.9 million shown in the financial statements.

(d) Government Procurement Guidelines

Section 6.3.6

Even though the activities relating to the opening of the bids for the purchase of raw materials valued at Rs.4,178,711 for the Rubber Institution at Peliyagoda should have been recorded in the specified format and signed by all the members of the Procurement Committee, it had not been so done.

2. Financial Review

2:1 Financial Results

The Government grant for recurrent expenditure for the year under review amounted to Rs.227.4 million and the operating result of the Board for the year before taking into account the Government grant had been a deficit of Rs.257.5 million. The corresponding deficit for the preceding year before taking into account the Government grant of Rs. 228 million amounted to Rs.234.8 million, thus indicating a deterioration of Rs.22.7 million. The decrease of internal income by a sum of Rs.2 million, the increase of raw materials and consumable materials by a sum of Rs.10.8 million, the increase of staff expenditure by a sum of Rs. 9 million and the increase of the expenditure on the contractual services by a sum of Rs. 3.6 million had been the primary reasons for the deterioration of the financial results.

2:2 Analytical Financial Review

After taking into account the Governments grants for each year, the Board had continuously incurred net losses amounting to Rs.18.6 million in the year 2010, Rs.6.7 million in the year 2011 and Rs.30.1 million in the year 2012 and the total cumulative net loss as at the end of the year under review amounted to Rs.367.2 million.

3. Operating Review

3:1 Performance

(a) Common Service Centres under the Villages Development Project

The following observations are made.

- (i) Even though 106 Production Villages with Common Services Centres had been established under the Villages Development Programme, 15 Centres out of that had not been opened to the public.

- (ii) Out of the 91 Common Service Centres opened to the public, 25 had not been in operation.
 - (iii) Out of the 156 Production Villages without the Common Service Centres, 94 Centres had not been in operation.
- (b) Divi Neguma Project

The following observations are made.

- (i) Out of the 2,100 beneficiaries who had completed the vocational training at the district level by 31 December of the year under review, the equipment needed for carrying out the vocations had been supplied only to 574 beneficiaries. As such, its success had been reduced as a large number of trained beneficiaries did not have the equipment needed to carry out their vocations.
 - (ii) A sum of Rs.12,350,000 had been made available to the District Secretary, Trincomalee in the year for the purchase of tools and equipment for the beneficiaries of the Divi Neguma Project. Out of that money, a sum of Rs.5,922,190 or 48 per cent only had been spent by 31 December of the year under review.
- (c) Out of the provision amounting to Rs.8.2 million made in the year under review for the construction of buildings, a sum of Rs.4.2 million or 51 per cent of the estimated provision only had been spent.
- (d) According to Section 50.1.1 of the Manual of Stores Procedure of the Board, bin cards should be maintained for all the goods in charge of the Storekeepers. Nevertheless, bin cards had not been maintained for the stocks of the Kithul Project and the Villages Project and the value of those stocks as at 31 December of the year under review amounted to Rs.13,408,599.

3:2 Management Inefficiencies

The following observations are made.

- (a) A sum of Rs.7,136,207 out of the Board funds had been spent from the year 2007 to 31 July 2012 for the Board Employees' Welfare Medical Scheme.

According to regulation 20 of the constitution of the Medical Scheme, accounts and Administration Reports should be prepared and presented to the Board of Control of the Board. But it had not been done over a number of years and an auditors also had not been appointed. Even though the Board had obtained a sum of Rs.4,063,571 from the Medical Fund, that amount had not been settled to the Medical Fund up to 31 December 2012.

- (b) The ground floor and the second floors of the three storeyed building are being used by the Lakkam Sales Centre while the third floor is being used as an auditorium. As only one electricity meter is installed for the three floors, heavy expenditure on electricity had to be incurred from the income earned by the Centre. A sum of Rs.1,757,740 had been spent on electricity in the year under review. The Centre is incurring losses over a number of years.

- (c) Sums of Rs.7,000,000 and Rs.3,000,000 had been given by the Treasury in the years 2009 and 2011 respectively as provision for the additional constructions done on the above building to obtain office and lavatory facilities. The utilization of the provision received in the year 2009 from the Treasury had been delayed up to March 2011 and the total cost estimate of Rs.10,000,000 for this building had not been prepared and approved in the year 2011. Even though 02 floors had been constructed even by April 2012 under the additional construction, it was open to the elements as the balance work including the roof had not been constructed.

- (d) Even though the Cabinet of Ministers had decided in the year 2003 for the establishment of an Incubation Centre for the industrialists on a Government land adjoining the Board, action for the acquisition of the land had not been taken even up to the end of the year 2012. The Incubation Centre is not in operation due to the occupation of the proposed land by unauthorized persons. Storage facilities for the scrap materials of the Board on that land had not been provided.

- (e) The recommendations in the report submitted by the Consultant appointed with the approval of the Board for making recommendations necessary for the elimination of the salary anomalies created in the implementation of the provisions in the Management Services Circular No. 30 of 22 September 2006 had not been implemented even by 31 December 2012.
- (f) Even though a sum of Rs. 10 million had been made available to the Board from the Cess Fund for the establishment of a Revolving Fund for providing facilities including obtaining raw materials by the industrialists, the expected objectives had not been achieved from the year 2009. That sum amounting to Rs.10.7 million as at the end of the year under review had been deposited in a Savings Account.
- (g) A system of regulations for the purchase, sale and storage of scrap materials had not been formulated and implemented in terms of the approval of the Cabinet of Ministers granted for the implementation of the Scrap Materials Project. In view of this position, various irregularities had been committed in the operation of the project as shown in the following observations.
 - (i) A sum of Rs.108.5 million had been issued to different Government institutions as prepayments from the year 2002 to the year 2012 contrary to the prevailing regulations. Out of those advances, a sum of Rs.52.3 million had been paid for the purchase of scrap materials.
 - (ii) Even though the records of the Project Marketing Division indicated that a sum of Rs.2,170,727 is payable from the year 2007 to different Government institutions for the purchase of scrap materials, that information does not appear in the accounts of the Finance Division. That amount had not been settled.
 - (iii) According to the Bank Reconciliation Statement of the Bank Account of the Scrap Materials Division as at 31 December 2012, unidentified deposits totalling Rs.813,241 comprising Rs.296,962 and Rs.516,279 in respect of the years 2011 and 2012 respectively had not been brought to account.

3:3 Transactions of Contentious Nature

The following observations are made.

- (a) The Lakkam Marketing Centre markets the goods of industrialists on the sale and subsequent settlement basis and proper stock books had not been maintained for recording the stocks received and issued. Instead, irregular records of stocks received and issues had been maintained in the files maintained for each supplier.
- (b) Even though the Bank Current Accounts maintained for the Regional Offices had been closed down, favourable balance of Rs.135,233 in 08 of those Bank Accounts and an overdraft balance of Rs.175 in one Bank Account had been shown in the financial statements.
- (c) A sum of Rs.19,663 had been paid as interest on the overdrafts in the Bank Accounts of the Board in the year under review.
- (d) The Scrap Materials Project of the Board had made prepayments amounting to Rs.37,992,038 to different Government institutions for the purchase of scrap materials and 08 of those institutions had been paid further prepayments amounting to Rs.28,391,374 without recovering the previous prepayments or obtaining scrap materials.

3:4 Idle and Underutilised Assets

The Printing Division has 03 idle printing machines and the value of the wire stitching machine, out of those, amounted to Rs.211,495. The value of the other two machines, that is, the Offset Machine and the Cutter could not be ascertained. Those machines had not been used over a number of years and action had not been taken to repair and use them or to take any other course of action.

3:5 Uneconomic Transactions

The following observations are made.

- (a) The basis of the selection of resource persons for various programmes and the particulars of the approvals obtained for the payments made to them at the rate of the Rs.1,000 and Rs.2,000 per hour and Rs.6,000 per day had not been furnished to audit.
- (b) Out of the money received for the Divi Neguma Project, a sum of Rs.6,000,000 had been transferred to other accounts of the Board in three instances. Out of that a sum of Rs.1,400,000 was further receivable by the Project Account.
- (c) The arrears of salary and lawyers' fees amounting to Rs.562,809 in connection with a case of an employee, not relating to the Divi Neguma Project had been paid from the Project.
- (d) Even though the funds of the Scrap Materials Project should be utilized only for the activities of that Project, the Board had spent a sum of Rs.3,171,000 from that fund for the purchase of 25 motor bikes for the officers of the Board.

3:6 Identified Losses

The copper wire lamination and the transformer oil which should be inside the transformers had been removed by opening the outer cover of 15 transformers purchased by the Scrap Materials Division. According to the stock records, the purchase price has amounted to Rs.1,270,964. This stock had not been physically verified and action in terms of Financial Regulations had not been taken on the damage caused to stocks.

3:7 Resources of the Board Supplied to other Government Institution

A Statistical Investigator and 02 Drivers recruited to the Industrial Development Board had been released to other Government institutions. Even though the Board had spent a sum of Rs.5,283,026 as their salaries and overtime up to May 2012, that money had not been reimbursed to the Board even up to 31 December 2012.

3:8 Human Resources Management

 The approved and the actual cadre and the vacancies of the Board had been as follows.

| Grade | Number approved | Actual Number | Number of Vacancies |
|------------------------------|-----------------|---------------|---------------------|
| ----- | ----- | ----- | ----- |
| Higher and Middle Management | 80 | 69 | 11 |
| Lower Management | 182 | 107 | 75 |
| Management Services | 186 | 128 | 58 |
| Technical | 149 | 76 | 73 |
| Non-Technical | 117 | 99 | 18 |
| | ----- | ----- | ----- |
| Total | 714 | 479 | 235 |
| | ==== | ===== | ===== |

The following observations are made in this connection.

- (a) The approval for the Scheme of Recruitment had not been obtained in terms of the Management Services Circular No. 30 of 22 September 2006 even up to 30 June 2011.
- (b) Vacancies in 235 posts had not been filled even by 31 December 2012.
- (c) Contrary to the Management Services Circular No. 30 of 22 September 2006, the Board had recruited 48 persons on casual basis without approval from May 2006 to 31 December 2012. Their service periods ranged from 01 year to 05 years.

3:9 Raising a Fund for the Provision for Employees' Gratuity

 The provision for employees' gratuity amounting to Rs.100,990,758 as at the end of the year under review had not been invested outside the Board. The comment of the Director General was that "the funds needed for investment are not available in the Board".

3:10 Utilization of Motor Vehicles

The following observations are made.

- (a) The bus purchased for Rs.7,950,000 in the year 2009 with the objective of distribution of technology from village to village had not been deployed on the expected objectives over a period of about 03 years. The bus had been used on 06 exhibition duties without targeted plans for the year under review and the running in that connection had been less than 2,500 kilometres.
- (b) Out of the 42 motor vehicles of the Board, the milometres of 09 motor vehicles had not been in working order. Even though fuel valued at Rs.1,127,622 had been consumed for those motor vehicles, the evidence on the distance run needed to confirm the correctness of that, had not been furnished to audit.

4. Accountability and Good Governance

4:1 Corporate Plan

Even though the Board had prepared a Corporate Plan for the period 2011 to 2013 in the year 2011 at a cost of Rs.2.2 million, the progress reports in support of the implementation of the projects included therein had not been furnished.

4:2 Action Plan and Progress

Even though an Action Plan for the year 2012 had been prepared and approved, the annual progress reports had not been furnished to audit for the evaluation of the progress of performance.

4:3 Internal Audit

Even though an internal audit had been implemented in the year under review, adequate internal audit reports in accordance with the Audit Plan had not been furnished.

4:4 Budgetary Control

The following observations are made.

- (a) A reconciliation of the provision made for expenditure according to the budget with the actual expenditure revealed variances. The number of instances in which the difference between the budgeted provision and the actual expenditure ranged between 10 per cent to 50 per cent had been 24.
- (b) Even though the budgeted income for the year amounted to Rs.350,720,000, the actual income amounted to Rs.162,510,332 and the collected income represented 53 per cent of the estimated income.
- (c) The achievement of the targeted income of the Technical Services, Engineering, Scrap, Lakkam and Lak Nipayum Divisions of the Board had been at a level less than 50 per cent.
- (d) Expenditure ledgers had not been used for the proper control of the budgeted expenditure.

4:5 Unsettled Audit Paragraphs

The directives of the Committee on Public Enterprises of Parliament on which adequate attention had not been paid up to the date of this report.

| Item | Directive of the Committee on Public Enterprises | Date of Meeting of the Committee on Public Enterprises | Current Status or Observations |
|---|--|--|--|
| (i) Vacancy in the Post of Finance Manager | Examine the Scheme of Recruitment for all posts and fill all vacancies | 09 December 2010 | The essential posts including the post of Finance Manager had not been filled. |
| (ii) Generator purchased for Rs. 7.7 million | As a loss of Rs.3.3 million has been insured by selling the generator without being used inquiries should be conducted against all officers responsible. | 16 November 2012 | Inquiries had not been finalized. |
| (iii) Sixty Eight defective manual pottery wheels and shortage of 79 manual pottery wheels. | Directed to conduct investigations on the stock shortage of 79 manual pottery wheels | 16 November 2012 | Investigations had not been finalized. |
| (iv) Products showroom at Badulla valued at Rs.1,412,100 | Directive to take steps to open for the expected purposes. | 16 November 2012 | Even though a period of 05 years had elapsed after the construction of the showroom, it had not been opened up to the date of this report. |
| (v) Advance of Rs.4.6 million paid to Sri Lanka Customs for purchase of scrap | Directed to take action to obtain scrap goods or the money. | 16 November 2012 | Out of the money paid, a sum of Rs.175,765 had not been reimbursed up to the date of this report. |

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|--------|--|---|------------------|--|
| (vi) | Loss from the investment of Rs.5.3 million in the Industrial Services Company Ltd. | Directed to write off by obtaining formal approval. | 16 November 2012 | Not done up to the date of this report. |
| (vii) | Industrial Estates not functioning | Directed to furnish a detailed report on the 18 Industrial Estates Zones in the Island. | 16 November 2012 | Such report has not been furnished. There are further 89 vacant industries and 100 non-functioning industries. There were persons occupying lands without authority. |
| (viii) | Scrap Materials Project | A detailed report on the purchase and Sale of Scrap materials | 16 November 2012 | Sales at the places of purchase had been continued |

(b) Matters pointed out in previous Audit on which Adequate Attention had not been paid

- (i) Three dough mixer machines purchased on 03 February 2006 for Rs.295,500 at the rate of Rs.98,500 per machine, for the Gonapura Food Project had been lying in the stores with their useful life period lapsing.
- (ii) The building of 1400 square feet with water and electricity situated on an 80 perch land called Mahiyangana, Miyanugana , Dambulawatta and the land had not been used for any purpose over a period exceeding 14 years.
- (iii) The hostel of the Appropriate Technology Centre at Pannala with accommodation for about 25 person remained closed down since the year 2004.
- (iv) A part of the mushroom drier purchased at a cost of Rs.1,180,000 for a Mushroom Project had been misplaced and the machine remained idle in the Board Premises.

- (v) The billing machine and the software purchased at a cost of Rs.306,750 in the year 2008 for the Lakkam Sales Centre remained idle even during the year under review.
- (vi) Sixteen shoe manufacturing machines said to be unusable remained idle over a long period in the Leather Goods Centre.
- (vii) Twenty eight shoe manufacturing machines valued at Rs.2,771,972 of the Villages Project purchases for distribution among beneficiaries had been idling in the Leather Goods Section.
- (viii) Goods valued at Rs.16,726,979 purchased under the Villages Development Project for the Common Services Centres and the beneficiaries remained in the stores. These goods had been purchased over periods ranging from 01 year to 05 years and their active life period was expiring.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets
- (b) Budget
- (c) Cash and Bank
- (d) Accounting and Costing of the Printing Division
- (e) Debtors and Creditors
- (f) Motor Vehicle Utilisation
- (g) Stocks
- (h) Computer System