

Industrial Development Board of Ceylon - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Industrial Development Board of Ceylon for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 a summary of significant accounting policies, 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2021, 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 intend 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 Scope of Audit (Auditor's Responsibility on 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 scepticism 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 Board '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 Board '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 Board 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 in relation to the preparation of financial statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

| Non Compliance with the reference to particular Standard | Comments of the Management | Recommendation |
|--|---|--|
| <p>According to paragraph 51 of Sri Lanka Accounting Standard 16 on Property, Plant and Equipment, the useful life of the assets should be reviewed at least in every financial year and if the useful life differs from previous estimates, it should be accounted in accordance with Sri Lanka Accounting Standard 8. The useful life of the property, plant and equipment which had been fully depreciated even by 31 December 2021 and which had been in use and costed at Rs.315,482,609 had not been reviewed and accounted accordingly.</p> | <p>A huge cost has to be incurred for the revaluation of the fully depreciated assets currently in use. Although it is theoretically correct to revalue the assets by incurring a huge cost and take those values into the books, many government institutions do not perform the revaluation of assets in this way because there is no value addition corresponding to the cost.</p> | <p>Assets should be revalued as per the provisions of the Standard and necessary adjustments should be made in the accounts accordingly.</p> |

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| (a) Although the engineering division had given interim payment certificates for the constructions worth Rs.31,699,372 for 05 projects, that value had not been included in the work in progress account and the payable creditor account. | Since these values had not been included in the report given by the engineering division to the finance division, this value had not been brought to accounts as work in progress and payments to be made to contractors. | The correct value must be accounted. |
| (b) Depreciation had not been carried out for the year under review for machinery and computer accessories, which had indicated net values of Rs.588,906 and Rs.539,436 respectively. | I will take action to rectify in the accounts related to the year 2022. | Accounting should be carried out accurately. |
| (c) Although the prepayments worth Rs.47,299,221 had been settled, it had not been eliminated from the account and had been brought forward. | I will check the relevant documents and find out the reasons and rectify them. | Arrangements should be made to rectify accounts. |
| (d) There was a balance of Rs.20,042,645 in the schedule of industrial estates receivable in the statement of financial position of the year under review and an unrecognized negative balance amounting to Rs.3,891,207 in the schedule related to that balance. Moreover, it was a negative balance amounting to Rs.3,134,734 in the Schedule of Industrial Estates receivable obtained from the software. The reasons for the existence of these negative balances had not been found out and it had not been rectified and included in accounts. | I will take action to discuss and rectify it. | Action should be taken to rectify. |

1.5.3 Unreconciled Control Accounts or Records

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| In the reconciliation of balances as per the trial balance obtained from the software system at the end of the year under review and the balances according to the financial statement, there had been differences in selling costs, administrative expenses, current assets and current liabilities amounting to Rs.23,769,029, Rs.4,502,409, Rs.104,011,157 and Rs.70,237,186 respectively. Action had not been taken to reconcile them and to rectify them. | The reason for the difference was the effect of the physical stock. | The values of the physical stock should be adjusted to the ledger through a journal entry and the trial balance should be obtained. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| (a) An amount of Rs. 11,819,515 had been a balance brought forward from the period prior to the year 2015 and a sum of Rs.8,036,313 had been a balance brought forward for 04 years from 2017 – 2020 within the prepayment balance of Rs.97,700,276 as at 31 December 2021 and action had not been taken to settle those balances. | I hope to work out methodologies to recover these balances. | Arrangements should be made to settle them immediately. |
| (b) According to the registers of the Industrial Estate Division, the rental income receivable from the Industrial Estates at the end of the year under review had been Rs.21,853,389 and there had been balances amounting to Rs.12,498,476, which had been old for more than two years and could not be recovered. Moreover, the balance of trade and other | Efforts are being made to reduce the total arrears less than that by the end of the year 2022, and it is also expected to take legal action against the remaining industrialists. | - Do - |

receivables except industrial estate debtor balances had been Rs. 20,111,521 as at 31 December 2021 according to the financial statements. An amount of Rs. 4,111,208 out of that balance had been balances carried forward since two years ago.

1.6.2 Payables

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| Trade Creditor Balance as at 31 December 2021 had been Rs. 86,431,770 and a sum of Rs.23,380,208 out of that balance had been balances carried forward from two years ago. Action had not been taken to settle them. | I will take action to pay after finding out the reasons and confirming that the payment should be made. | Arrangements should be made to settle immediately. |

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

| Reference to Laws, Rules Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
|--|---|--|--|
| (a) Public Administration Circular | | | |
| (i) Paragraph 2 (II) of No. 03/2018 dated 20 February 2018 | A female officer over the age of 60 years had been recruited to the post of Director Human Resources of the Board without obtaining the approval of the Secretary of the relevant Ministry and she had been paid a sum of Rs.2,989,008 as salary and allowances from May 2016 to February 2019. | Recruited on contract basis under the approval of the Board of Directors on not being able to select a suitable candidate by publishing newspaper advertisements. An investigation is being carried out under the Commission to Investigate Allegations of Bribery or Corruption Act, No. 19 of 1994 regarding this appointment. | Action should not be taken to violate or contravene the provisions of the Circulars. |

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|--|--|---|---|
| (ii) Circular No. 28/2011 dated 12 December 2011 | <p>The approval has been granted from 01 January 2012 to pay a monthly allowance of Rs.15,000 for the officers of the Sri Lanka Engineering Service. Although the approval should be obtained from the Ministry of Finance through the Secretary of the Ministry, in case the allowances are paid to institutions, which are not approved by this Circular, the Industrial Development Board had paid engineering allowance to 12 officers from the year 2018 on the approval of the Board of Directors without such approval.</p> <p>The total of those payments had been Rs. 1,965,000 in relation to the year 2021.</p> | <p>After submitting the recommendation of the Board of Directors to the Secretary of the Ministry, the approval of the Secretary of the Ministry has been received for that. The said approval was submitted to the Board of Directors and the respective allowance was paid to the Engineers of the Board as per their approval.</p> | <p>Action should not be taken to violate or contravene the provisions of the Circulars.</p> |
| (b) The scheme of recruitment of the Board approved in the year 2013 | <p>(i) An officer, who had not fulfilled the qualifications mentioned in the approved scheme of recruitment had been recruited for the position of Marketing Director and a sum of Rs.10,882,253 had been paid as salary and allowances from 26 June 2015 to 30 September 2021.</p> | <p>An impartial Three-Member Committee conducted an investigation and gave its report to the Chairman. Subsequently, the report had been forwarded to the Board of Directors. The report has been forwarded to the Department of Labour, and a reply has not yet been provided.</p> | <p>Action should be taken in compliance with the approved scheme of recruitment.</p> |
| | <p>(ii) An officer, who had been functioning as the Deputy Director (Enterprise Development) had been recruited to the post of Director (Industrial Estates)</p> | <p>He has resigned from the service. A three-member committee has conducted an investigation on the problematic situation</p> | <p>Action should be taken in compliance with the approved scheme of</p> |

with effect from 01 January 2013 although he had not fulfilled the qualifications stipulated in the approved scheme of recruitment. The difference between the salaries and allowances of the two positions had been approximately Rs.3,977,595 from that date up to September 2020.

arisen regarding his payments. According to the investigation report, it has been recommended that the difference between the salary of the post of Deputy Director before the year 2013 and the salary of the Director post should be recovered. The relevant reports regarding the payment of allowances have been forwarded to the Labour Department.

recruitment.

(c) Sub-section 020102 of the e-Government Policy issued by the Information and Communication Technology Agency (ICTA) of Sri Lanka

Although it had been stated that instructions of the Information and Communication Technology Agency (ICTA) of Sri Lanka should be obtained by all the government institutions before the commencement of a major information and communication technology project of more than Rs.2 million, the Board had not functioned in that manner for the Sage software system, which had been purchased at a cost of Rs.4.8 million.

Comments have not been given.

Action should be taken in compliance with the instructions of the Circulars.

(d) Subsection 1.2 of the Public Enterprises Circular No. 01/2020 dated 27 January 2020.

Although it had been indicated that a Chairman of a public institution is entitled to obtain one vehicle and 150 litres of fuel per month (1800 litres per annum), the former chairman had obtained 2600 litres of fuel in the year 2021 in addition to the amount of fuel he had been entitled to

Comments have not been given.

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annually, without getting any approval and by contravening the provisions of the Circulars.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs.62,763,817 and the corresponding profit of the previous year was Rs.14,022,747. Accordingly, an improvement of Rs. 48,741,070 was observed in the financial result. This improvement was mainly due to the increase in the Government Recurrent Grants by Rs.84,500,000 during the year under review as compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|--|--|
| <p>(a) The food laboratory had been built with the objectives of business promotion and development as well as upgrading the quality of food products to the local and international markets by providing food laboratory testing services to small and medium scale industrialists. According to the report of the food laboratory division in the year under review, the actual income had been Rs.6,056,249. Even though 05 officers had been employed for the functions of the food laboratory and the constructed laboratory building and equipment had been used for these tests, this laboratory had been operated in coordination with another external institution without operating independently. Therefore, the laboratory had to pay 80 percent of the revenue earned from the tests conducted to an external institution as per the agreement.</p> | <p>Laboratory certificates are issued in coordination with SGS Lanka (Pvt) Ltd, as the international laboratory service provider, which provides a service to food manufacturers by issuing internationally recognized laboratory accreditation certificates in accordance with ISO 17025 international standards.</p> | <p>Contracts should be entered into in such a manner that revenue for the organization is maximized.</p> |
| <p>Moreover, it had not been possible to obtain the accreditation for issuing chemical test</p> | <p>Although the sample tests were started in the laboratory in the year 2020 by adhering to ISO 17025 in order to obtain the accreditation, the conduct of laboratory activities was hindered due to the COVID 19 issue in the year 2021/2022 and due to the economic situation prevailed in the country in the year 2022.</p> | |

reports although more than 2 years had passed since the establishment of the chemical laboratory.

(b) There had been 733 plots in the 16 industrial estates owned by the Board and 37 plots, out of the plots remained vacant for several years as they had not been allotted to the industrialists. Forty one (41) industries in the industrial estates had not been functioning and they had been closed down as at 31 December 2021. Arrangements had not been made to find and to distribute such industrial estates to other industrialists. Twenty three (23) plots of land in 05 industrial estates had been used for dwelling.

(c) Six (06) plots (240 perches) of Lands bearing No. 19 to 24 in Pannala Industrial estate had been given to a Board in the year 2016. However, the construction activities had not been completed and the production activities had not been started even by 31 July 2022. Although the match factory located at land No. 17 had made an unauthorized construction on the front road, the Board had not taken any action in this regard. Although 09 plots of land in Pannala Phase II had been given to the industrialists in the year 2018, the production activities had not been commenced even by 30 July 2022.

Currently, the laboratory has completed all the technical requirements and had completed the necessary assessments required for accreditation.

We are making arrangements to vest these plots to new investors in the future. Six, out of the companies that had stopped production, have been vested in new investors.

Since the construction work of parts No. 19 to 24 has not been completed and the production activities have not been started, it should be transferred to a new investor or should be vested in the Board in the future.

The Officer in charge of the Industrial Estates and the Director of Estate Division have informed to remove the unauthorized construction made using container boxes at No: 17.

Development activities of Phase 2 have been completed and plots of land have been vested to 08 industries in 2021. Three (03) industries are carrying out constructions and another industry is clearing the land and making arrangements

Action should be taken to distribute plots to industrialists and to uplift the productive industries.

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related to the construction of the building.

(d) The hostel constructed for the employees in the Ekala Industrial Estate had been in a very dilapidated condition as any repairs had not been carried out. Moreover, there had been no any preparedness even by 31 July 2022 for the commencement of industries in plots of land of DP-12 and DP-13 (in the extent of 103 perches) provided to two industrialists in the year 2021 by the industrial estate and as a result, weeds had been grown in the land plots.

It is anticipated to vest the low land of about 40 perches, on which these houses have been built and which are in a dilapidated condition, to a suitable investor to utilize the lands productively.

Action should be taken to distribute plots to industrialists and to uplift the productive industries.

It was reported to us that the construction activities of the two institutions have been planned to start in DP-12 and DP-13 plots.

3.2 Operational Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| <p>(a) In the year 2021, 157, 108, 131 and 142 industrialists had registered to receive scrap aluminium, iron, copper and brass respectively. According to the scrap sale schedule in the marketing division, aluminium had not been provided to 13 industrialists and iron had not been provided to 34 industrialists and copper had not been provided to 95 industrialists and brass had not been provided to 136 industrialists. Aluminium had been provided to 21 industrialists and iron had been provided to 10 industrialists by exceeding the recommended amount. Moreover, 247 transformers worth 42,056,412 had been given to 11 industrialists and 03 industrialists had been given a quantity more than the recommended.</p> | <p>Aluminum is provided to the industrialists based on the amount of aluminum in the release of scrap aluminum. The location of the scrap material and the industrialists, who collect the scrap material go a long distance to collect the scrap material although their annual scrap requirement is very low. Therefore, an amount of scrap materials that is adequate for the transportation cost is provided to them. Otherwise, they will refuse to collect scrap materials. Therefore, the amount of scrap materials provided from Hali-ela area of Badulla has exceeded the annual requirement of the industrialists, who went to that area from Colombo area.</p> | <p>District officials should fairly distribute the recommended quantities of scrap.</p> |
| <p>(b) The Casting Division had arranged to purchase a new Medium Frequency Induction Furnace for an amount of Rs.</p> | <p>In calling prices for the 3rd occasion, a very high price has been indicated for the oven in the</p> | <p>Action should be taken to use the oven optimally.</p> |

22,996,722 without VAT on 18 October 2021. Although it is possible to use this machine to smelt 60 metric tons per month, due to the shortage of primary level officers and limited space in the division, only about 10 tons per month are being smelted and certain orders received had been used to accomplish subcontracts of the other external organizations.

(c) The Board had not been able to acquire the ownership of the land of about 1.2953 hectares, where the Board has been established and the land of 13 acres 03 roods and 34 perches where the regional offices have been established. Due to this, it was not possible to calculate the values and include them in the financial statements of the Board although these properties had a large commercial value. Private businesses are being operated on 3/4 of the land, where the new ground building is located within the land, where the Head Office is established and the Board had failed to collect any ground rent or building rent from them.

optimum level presented in the 2nd occasion. The price of the other oven, for which the prices were called, was even higher.

Comments had not been given.

Arrangements should be made to vest lands in the Board and to utilize buildings efficiently.

3.3 Transactions of Contentious Nature

| ----- Audit Observation ----- | ----- Comment of the Management ----- | ----- Recommendation ----- |
|--|---|--|
| An agreement had been entered into between the Ministry and the Industrial Development Board on 15 October 2021 in view of making payments equivalent to 07 per cent of the total project cost under 07 stages to the Board for providing consultancy services relating to planning, manufacturing, supply and installation of machines to be used by the multipurpose pepper processing centre in Embilipitiya. Approval of | Approval of the Board of Directors had been given that 40 per cent of the income received in each instance for consultancy service, be paid to the officers involved in a project named by the Director (Engineering). As such, the Board earned a benefit of 60 per cent whilst the contributors to the project received a special income, otherwise the Board would have lost the 60 per cent income as well. | Approval of the Secretary of the Treasury should be obtained for payments. |

the Board of Directors had been given that 40 per cent of the total income received by the Board therefrom be disbursed as a capacity motivation allowance among the officers of the engineering division who contributed to that service. Accordingly, an allowance of Rs. 1,079,467 out of the income amounting to Rs. 2,933,333 had been paid to 21 officers in December 2021 without being approved by the relevant Ministry or the Ministry of Finance.

An allowance of this nature will strengthen the income of the Board thereby achieving the objectives of the Board whilst motivating the employees with benefits.

3.4 Idle or Underutilized Property, Plant and Equipment

| ----- Audit Observation ----- | ----- Comment of the Management ----- | ----- Recommendation ----- |
|---|---|---|
| (a) There existed 34 items of unusable machines and other equipment older than 10 years as at 31 December 2021 at the factory of the engineering division, but attention had not been drawn either to eliminate those items from the division or take any other suitable measures. Due to non-availability of operators for the 04 machines of Boring Machine, Electrical Discharging Machine, Die Sinking Machine, and Power Hammer for Black Smithy Work used for resizing the holes and cutting sheets of metal, those machines remained idle over a period of 10 years. | Action is being taken to identify and sell the unusable machines and make use of the repairable machines after being renovated, thus saving the space in the factory. | The unserviceable items should be disposed in terms of provisions of Circulars. |
| (b) A rubber injection molding machine valued at Rs. 9,318,026 (including tax) had been purchased in the 2016 to be used at the Rubber Products Development and Services Centre in Peliyagoda with the objectives of improving the quality of rubber | With a view to repairing, the machine was inspected twice by the service providers. As the fault is software-related, information is collected from the | The assets of the Board should be utilized productively. |

related products, minimizing waste, increasing the efficiency of production process and minimizing the production cost, and introduction of the machine to small and medium scale industries. Training had been provided only for 328 trainees since the date of purchase. As the machine had not been used after 21 February 2020, it had become non-functional; hence, the machine had been brought to the Industrial Development Board in October 2021. However, the machine remained non-functional even by 30 July 2022 at the premises of the factory of the engineering division.

- (c) There existed 64 items of machineries at the Rubber Products Development and Services Centre in Peliyagoda, and 26 of those machines had remained non-functional over a period of 01-37 years whilst one machine had not been used since the date of purchase.
- As those machines had been purchased during the initial stages of establishing the rubber division, they had gradually been removed from the market. Repairing the machines has also become difficult due to non-availability of spare parts. The serviceable machines were sent for repairs.
- Machines should be expeditiously repaired and utilized or unusable items that should be disposed of should be disposed in accordance with provisions of Circulars.
- (d) The purchase of instruments should have been planned when the construction of microbiology lab of the food laboratory on the first floor was completed. However, Instruments worth Rs. 6,203,670 had been purchased in the year 2019. The warranty period thereof will expire by the end of 2022 although the instruments are not used. The instruments had not been used for tests even up to 31 July
- According to the agreement entered into with the suppliers, the period of warranty becomes effective once the instruments are installed. Chemical instruments have been installed at the first floor and the use of the utilization of these instruments has been
- Action should be taken to productively use the assets.

2022.

delayed due to Covid-19 pandemic during 2021/2020, and due to the economic crisis in the country. It is expected to use those instruments in this year.

- (e) A sum of Rs. 40 million had been incurred on the renovation of a building owned by Industrial Development Board and purchase of instruments for the Centre of Excellence for Robotic Applications in terms of the Cabinet Decision, No. අම/16/1424/723/039; and, instruments including 04 robots and 02 CNC Lathe and Mill machines worth Rs. 80 million had been purchased. The other instruments, except for 02 CNC Lathe and Mill machines, had been installed at the Centre by March 2018. Salaries and allowances totalling Rs. 11 million at Rs. 725,000 per month had been paid to the officer appointed for the execution thereof during the period from September 2017 to October 2018. However, the necessary staff had not been appointed with the functions of the Centre not commenced. Due to failure in becoming successful, the Centre functioned under the Ministry of Industries, had been vested in the Ministry of Science and Technology in December 2018 whereas the Centre had again been vested in the Ministry of Industries with effect from August 2020. Although the project had been implemented with the objectives of encouraging the industries in Sri Lanka, improving them and assisting the development, such objectives have not so far been
- Execution of robots and other instruments is done in accordance with instructions and directives of the Line Ministry.
- Action should be taken to re-implement the project under a general agreement thus ensuring effective utilization of assets and action should be taken against the officers responsible for this.

fulfilled. It was observed that some of those instruments were decaying whilst the others remained idle at the new building of the Sri Lanka Industrial Development Board over a period of 05 years from 2017 to August 2022.

- (f) Construction works of the cafeteria, post office building and well in the industrial estate of Achchuveli had been commenced in the year 2017, and an interim payment of Rs. 1,911,200 had been made on 03 July 2018. The cafeteria and post office building had been constructed though, they had not been made use of thus far whereas the construction of well had not been done properly.
- The said payment had been made after making estimates considering the amount of works done thus far. The well had not been constructed properly whereas all other constructions had been done in accordance with the bills of quantities. Due to difficulties in obtaining water continuously although the well had been constructed, it was informed that the well needed further deepening. As this work is not yet complete, the payments have been suspended
- Action should be taken to productively use the assets and action should be taken against the officers responsible.
- (g) A contract valued at Rs. 36,256,896 (without VAT) had been awarded to the National Equipment and Machinery Organization on 30 August 2018 for infrastructure development of the Industrial Estate in Achchuveli, and a sum of Rs. 7,251,379 equivalent to 20 per cent of that value had been given in 02 instances on 05 October 2018 and 23 October 2018. Although the constructions should have been completed by 01 December 2018 as per the agreement, the contract remained incomplete even by 30
- An advance of 20 per cent had been given after signing the agreement relating to the said contract. However, the work had not been done within the agreed timeframe. As there had been no progress in the construction works, the Secretary to the Ministry requested to assist in solving this issue. A final decision
- Action should be taken either to complete the constructions or recover the monies.

July 2022. Due to failure of the Board in recovering the advance paid to the institution, that expenditure had become uneconomic. will be reached in due course by holding discussions between the institutions.

3.5 Human Resource Management

| Audit Observation | Comment of the Management | Recommendation |
|---|---|---|
| <p>(a) According to the Scheme of Recruitment of the Board, the post of Business Promotion Officer belongs to junior management level. However, following a verdict delivered on a case, 52 officers had been placed in the middle level management under the post of Business Promotion Manager. Approval of the Department of Management Services has not yet been obtained to include those officers into the approved cadre of the Board.</p> | <p>Letters had been sent in several instances through the Line Ministry seeking approval of the Department of Management Services to place those officers under the middle level management.</p> | <p>Approval of the Department of Management Services should be obtained prior to making appointments.</p> |
| <p>(b) According to Section 13.3 of Chapter II of the Establishments Code, an acting appointment should be made only until an appointment is made permanently. However, According to the information made available to the Audit, 34 officers comprising 05 Directors and 21 Assistant Directors had been appointed on acting basis by the Board as at 31 December 2021. Ten of those officers had been in their acting posts over a period of 02 years, and a sum of Rs. 2,264,189 had been paid as acting allowance to those officers from January to 31 December 2021.</p> | <p>The Ministry of Finance had prevented making appointments to the post of Director. It is informed that the vacancies will be filled once allowed to do so.</p> <p>The vacancy in the post of Assistant Director could not be filled internally due to a case filed by the Business Promotion Officers' Association at the Appellate Court.</p> | <p>The vacancies should be filled.</p> |
| <p>(c) According to Circular No. 01/2020 of the Ministry of Finance, Economy and Policy Development dated 21 February</p> | <p>It appears as per the file that those appointments had</p> | <p>Action should be taken in accordance with Circulars.</p> |

- 2020, all the appointments to the posts of primary category (PL-1, PL-2, and PL-3) in all the Ministries, Departments and the institutions thereunder, should be suspended until further notice. Nevertheless, 34 appointments had been made by the Board on contract basis in the year under review vis-à-vis 29 appointments under PL-1 category and 05 appointments under PL-3 category.
- (d) Preliminary activities had been executed to make appointments as per Paragraph 2 (ii) of Cabinet Memorandum presented by the Ministry of Finance dated 28 August 2021. However, it was stated that making appointments to the posts for which no appointments had been made thus far, be postponed. Contrary to that, 19 officers, except the Director Finance, had been appointed from 01 September 2021.
- (e) There existed only one post of Mechanical Engineer in the approve cadre of the Board, and that post had been occupied. Nevertheless, under approval of the Chairman and Decision No. 2021/BM 533/BP/3103 of the Board of Directors, 03 more Mechanical Engineers had been appointed on contract basis in 2021 sans approval of the Department of Management Services. A monthly payment of Rs. 75,000 had been made to those officers under approval of the Chairman external to the approved salary scale.
- (f) The post of officer-in-charge at the electroplating centre in Peliyagoda had not been in the approved cadre. An officer had been appointed to that post under approval of the Chairman on July
- been made by the then Chairman under approval of the then Human Resource Consultant who had been on acting basis.
- Those appointments had been approved by the Human Resource Management Consultant and the Chairman.
- Recruitment should be made in accordance with the lawful methodologies.
- Approval of the Department of Management Services should be obtained before making appointments. The appointments should be made within the approved cadre only.
- With a view to continuing the functions of that center although an officer-in-charge had
- Approval of the Department of Management Services should be obtained prior to making appointments.

- 2021, and a sum of Rs. 62,350 had been paid monthly external to the approved salary scale.
- not been assigned thereto, and as the post of Assistant Director had fallen vacant, the Chairman decided that an engineer be appointed on contract basis thereby making payments under MM 1-2 salary scale.
- Appointments should be made only within the approved cadre.
- (g) Following Paper No. 2021/BM/534/BP/3142 of the Board of Directors dated 31 March 2021, an appointment had been made to the post of Human Resource Management Consultant which had not been in the approved cadre, with effect from April 2021 under an assignment for 06 months. A sum totalling Rs. 550,000 had been paid as salaries and allowances at Rs. 110,000 per month.
- The appointment had been made by the then Chairman under approval of the Board of Directors in view of motivating employees through the management of human resources of the Board.
- Approval of the Department of Management Services should be obtained prior to making appointments. Appointments should be made only within the approved cadre.
- (h) As per the approved cadre, 08 trained consultants should be assigned to the leather items section, but at present, the training activities are conducted by 02 acting consultants. Although 03 trained consultants had been appointed to that section in the year 2021, they had no training on leather items. Accordingly, they had been attached to other sections.
- No appointments have so far been made by conducting interviews with respect to 45 applications received in response of advertisements published internally and on newspapers for the recruitment of consultants to the leather items development center. The human resource consultant had interviewed an external group of persons thereby making appointments.
- Action should be taken to make appointments in accordance with qualifications mentioned in the approved Scheme of Recruitment.

4. Accountability and Good Governance

4.1 Annual Action Plan

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| ----- | ----- | ----- |
| (a) It was stated that training programs had been held for entrepreneurs over several decades by the molding section under the 04 areas of pattern making, molding, melting and testing in accordance with the project report on a high-induction oven. However, due to lack of staff, the molding division had conducted only one training programme in the year 2021. | Conducting training programs should have been done within the timeframe of the JICA project, and it had been done during 1996-2000 and the follow-up period of 2000-2002 as well. Training programs were restricted due to reasons such as, changes in objectives, lack of update on technology owing to lack of modern training opportunities in the face of new technological advancements, and the pandemic prevailed in the country. | Action should be taken to achieve the targets. |
| (b) The sales division had been established with the objectives of executing the activities relating to the sale of items manufactured by the small and medium scale industrialists, promoting services, and establishing liaisons with the market. However, it was revealed in examining the progress that only 02 of the 07 activities had been executed. The sales division had not brought attention on the productive achievement of other objectives in establishing the division. | One of the two Assistant Directors at present has been assigned to the process of purchasing scarp items. Considering the heavy workload of the scrap items management project, time of the officers cannot be spent on other activities at present. | Action should be taken to achieve the targets. |

- (c) The engineering division had been established with the objectives of providing technical assistance for other divisions of the Board, providing technology for requirements of the rural people, providing assessment and quality assurance reports on industries, and development of molding facilities for local metal industry. The amount of work orders received had been decreased due to unfavorable economic situation in the country and Corona pandemic. The arrival of staff had also decreased and hence the works done had been limited during that period. Progress of internal work orders is not included in the progress report. Action should be taken to achieve the targets.
- Twenty one sub-activities had been included under 03 main activities in the Action Plan of this division. Progress of 03 sub-activities remained 01-25 per cent whereas the progress of 11 sub-activities remained as unsatisfactory as 0 per cent.
- (d) The technical division had been established with the objectives of providing technical assistance for the industrialists from the inception to implementation of the new industrial concept, and providing further technical assistance for them to expand, renovate, diversify and improve the productivity and quality of existing industries. Eleven (11) sub-activities had been mentioned under 04 main activities in the progress report of the technical division, and targets had not been achieved with respect to 06 sub-activities. There were 02 sub-activities the progress of which remained less than 50 per cent of the expected targets. The reasons such as, Covid-19 pandemic, quarantine curfew, and lack of officers, had attributed to the failure in achieving the targets set for certain activities. - Do.

- (e) The estates division had been established with the objectives of, providing buildings and lands with infrastructure facilities on long term leases at 18 industrial estates in order to establish industries, and generating direct and indirect employment opportunities by encouraging the private sector to establish industries in the industrial estates. Four activities had not been executed in the year under review as per the Action Plan thereof. Although a revenue of Rs. 73.8 million had been expected, the actual revenue amounted to Rs. 46.5 million representing 63 per cent of the expected revenue. The revenue had decreased due to failure in properly recovering the lease rents.
- Not replied.
- Action should be taken to achieve the targets.