

Sri Lanka Export Development Board-2012

1. Financial Statements

1.1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of Export Development Board of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standard

According to the Sri Lanka Accounting Standard No. 16 (LKAS 16), the fully depreciated assets which are being used at present had not been revalued and brought to account.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) Advances amounting to Rs.5,452,001 had been granted in the year 2012 and the preceding years for 15 Export Promotion Programmes and sundry supply services. Even though those services had been received by the end of the year under review, those advances had been erroneously shown under the current assets as at 31 December 2012 as expense advances instead of settling the advances and accounting for the relevant expenditure.
- (b) The unusual credit balances Rs.687,613 in the total of Foreign Travel Debtors Asset Account balances and the unusual debit balances amounting to Rs.10,403,683 in the total of the UvaParanagama Export Processing Villages Products Sales Control Creditors Account remained without being settled.

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken for the recovery of the Input Value Added Tax accumulated over periods exceeding 7 years up to 31 December of the year under review amounting to Rs.104,619,993.
- (b) Two liabilities accounts totalling Rs.3,117,992 remaining payable over a period exceeding 06 years had not been settled even by 31 December 2012.
- (c) Refundable deposit balances amounting to Rs.6,011,195 accumulated in the accounts over periods ranging from 02 to 15 years had not been settled.

1.2.4 Lack of Evidence for Audit

The following items of account could not be satisfactorily vouched/verified in audit due to the non-submission of the confirmations and evidence indicated against each item.

Item of Accounts	Value	Evidence not made available
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	Rs.	
Investments made in the shares of private companies	502,491,361	(i) Investment Certificates (ii) Files containing Information
Loans receivable from Exporters	46,486,856	(i) Registers of Loans/Ledgers (ii) Files containing Information (iii) Documentary Evidence in Support of existence
Sundry Debtors	13,256,823	} (i) Register of Debtors, Creditors /Ledger (ii) Confirmation of Balances
Sundry Creditors	14,537,197	

1.2.5 Non-compliance with Laws, Rules and Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Section 2(I) of the Sri Lanka Export Development Act, No.40 of 1979	The National Development Council for Implementation of Export Development Programmes and Policies had not met during the 20 years, from the year 1992 to the year 2012.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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- (i) Financial Regulations 388 and 389 Even though cheques written should be handed over to the drawers immediately, 42 cheques valued at Rs.22,687,471 had been retained by the officers for periods ranging from 02 to 08 months without taking action to handover.
- (ii) Financial Regulations 396 Action in terms of the Financial Regulation had not been taken on 16 cheques valued at Rs.2,957,542 issued but not presented to the Bank for payment for more than 06 months.
- (iii) Financial Regulations 756 Fixed Assets valued at Rs.170,328,607 had not been surveyed from the year 2009 to the year 2012.
- (iv) Financial Regulations 1645 Motor Vehicle Log Books had not been maintained for 28 motor vehicles belonging to the Board.
- (c) National Budget Circular No.150 of 7 December 2010 Even though the motor vehicles required by the Board could be obtained under the financial leasing system, contrary to that the Board had obtained 4 motor vehicles on lease rent basis for 05 years and had paid Rs. 8,680,568 as lease rent up to 31 December 2012.
- (d) Treasury Circular No.842 of 19 December 1978 A Register of Fixed Assets had not been maintained.

1.2.6 Transactions not Supported by Adequate Authority

Even though there is no post of Executive Director for the Board in terms of the Sri Lanka Export Development Act, No.40 of 1979 or the approved cadre, contrary to that an Executive Director had been appointed and a sum of Rs.1,557,337 had been paid from the funds of the Board up to 31 December 2012 as the monthly allowance, fuel allowance and telephone charges.

1.2.7 Transactions Extraneous to Objectives

A sum of Rs.8 million had been invested in the year 2011 deviating from the functions of the Board spelt out in Section 12 of the Sri Lanka Export Development Act, No.40 of 1979 and without a formal authority for the purchase of the shares of a company established for organizing the activities for obtaining the hosting of Commonwealth Games 2018 and development and promotion of sports. Nevertheless, the affairs of this company had become inactive by 31 December 2011 due to the failure to obtain the hosting of the Commonwealth Games.

2. Financial Review

2.1 Financial Results

According to financial statements presented, the operations of the Board for the year ended 31 December 2012 had resulted in a deficit of Rs.32,056,755 as compared with the corresponding deficit of Rs.19,489,522 for the preceding year. The financial results for the year under review as compared with the preceding year indicated a deterioration of Rs.12,567,233. Despite the increase of income by a sum of Rs. 122,625,176 the increase of Rs.92,454,006 in the development expenditure, and the increase of administrative expenditure and the finance cost by Rs.41,950,171 and Rs. 788,232 respectively had been the main reason for the deterioration.

2.2 Legal Actions initiated by the Board

The Board had filed 05 cases in Courts for the recovery of the trade stall rents and electricity charges totaling Rs.7,079,858 recoverable from 05 trade stalls of Sri Lanka Trading Centre in Chennai, India.

3. **Operating Review**

3.1 **Performance**

The performance of the Board under programmes and projects as at 31 December 2012 had been as follows.

(a) Programmes of the Budget Proposal of the Government

Programme	Physical Performance			Financial Performance		
	Number of Targeted Projects/Activities	Number of Projects/Activities Completed	Percentage of Performance	Budgeted Provision Rs. Millions	Actual Utilization Rs. Millions	Percentage of Financial Utilization Percentage
(i) Integrated Agricultural Model Programmes	100	06	06	500.0	75.6	15
(ii) Export Agri Zones						
➤ Ampara Pineapple Cultivation Project	Establishment of Cultivations with 1,200,000 Pineapple Shoots in 200 acres	The Project had been inactive after establishing cultivation of 174,401 Pineapple Shoots in 52 acres	26	16.2	2.0	12
➤ Bingiriya	(i) Supply of 50,000	Only 15,000 plastic				

Anthurium Flowers and Ornamental Cut Plant Processing Seedlings Cultivation Project	cement flower pots to farmers	and nylon pots had been supplied to the farmers	08	24.8	27.6	111
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(ii) Export of 124,000 Anthurium flowers annually
Flower exports in the years 2011 and 2012 had been only 10,400 and 15,475 respectively

The following observations are made.

- (i) Out of 100 targeted projects of the Integrated Agricultural Model Programme, only 24 Projects had been commenced. Out of that, 18 failed Projects had been abandoned.
- (ii) The construction buildings proposed for the collection of products, packaging and the training centre with reference to the Bingiriya Anthurium Flower Cultivation of the Export Agri Zone Programme had not been commenced even as at 31 December 2012.
- (iii) The establishment of the targeted cultivations could not be achieved as the contractor for the pineapple shoots to the Ampara Pineapple Cultivation Project of the Export Agri Zone Programme had abandoned the supply of pineapple shoots. Nevertheless legal action in connection with the damage caused due to abandoning the supply had not been taken even by September 2013.

(b) Export Development and Promotion Programmes

Sector	Physical Performance				Financial Performance			
	Number of	Number of	Number of	Number of	Performance	Budgeted	Actual	Percentage of

	Targeted Programmes	Cancelled or Suspended Programmes	Programmes not Completed Adequately	Completed Programmes	Percentage	Provision	Financial Utilization	Utilization
					Percentage	Rs.Millions	Rs.Millions	Percentage
(i) Industrial Products	34	03	08	23	68	57.74	28.77	50
(ii) Agricultural and Fisheries Products	40	05	14	21	53	65.84	37.35	57
(iii) Export Services	22	04	08	10	45	27.80	9.62	35
(iv) Marketing Promotion	23	01	04	18	78	49.80	25.57	51
(v) Small and Medium Scale Enterprises Development	36	23	-	13	36	81.40	7.80	10
(vi) Other Export Services	42	07	14	21	50	30.69	14.95	49
(vii) Special Projects	04	01	01	02	50	99.61	132.17	133
(viii) Other Special Projects	06	03	01	02	33	51.36	14.95	29
Total	<u>207</u>	<u>47</u>	<u>50</u>	<u>110</u>		<u>464.24</u>	<u>271.18</u>	<u>58</u>

(c) Foreign Trade Exhibitions

Even though the participation of 85 export companies had been facilitated in 05 foreign trade exhibitions at a cost of Rs. 61.16 million under the Export Promotion Programmes during the year 2008 to the year 2012, only 11 companies out of that had contributed to the export promotion. As such facilitating the participation of exporters to the foreign trade exhibitions had not been done effectively for the improvement of export income.

(d) Local Trade Exhibitions

Even though the participation of 1,507 foreign buyer companies and 299 local export companies had been facilitated for the International Trade Exhibition “Sri Lanka Expo - 2012” held at a cost of Rs.156.6 million, agreements for orders amounting to United States \$ 66 million had been received from 15 foreign buyer companies only to 12 export companies. Even though a period exceeding one year had elapsed by 30 April 2013, those companies had not received any orders. As such export opportunities had not materialized. The improvement of export income expected from holding the trade exhibition had not been achieved there from.

3.2 Management Inefficiencies

- (a) The Board had not formulated and implemented the criteria and procedures for the follow up action for the evaluation and review of the achievement of the targets of the Export Promotion Programmes such as the “Integrated Agri Models”, “Agri Zones” etc. As such it was not possible to be satisfied whether export promotion had been achieved from the programmes implemented by the Board.
- (b) The following observations are made on the viability of the investments amounting to Rs.163,370,567 made in the shares of 66 private companies established under different Export Promotion Programmes.

- (i) Suitable courses of action had not been taken for the recovery of the investment of Rs. 85,975,869 made in 37 companies which had become inactive due to the non-achievement of the targeted objectives or the failure of the programmes implemented by establishing those companies.
 - (ii) The report of the follow up and working of the 29 companies in operation had not been updated with regard to the investment of Rs.77,394,698. Attention had not been paid for obtaining a return for the investments made with the companies which are in operation.
 - (iii) A provision of Rs.122,822,417 had been made in the accounts improperly for the full diminution of the value of investments made in the shares of 53 companies without carrying out proper evaluation, assessment and review of the viability and value of the investments.
- (c) Even though plans had been made for the construction of 600 greenhouses for cultivation of vegetables under the UvaParanagama Greenhouse Project, only 100 of those had been commenced. The Board had terminated the Project work without taking adequate action for the completion of the balance 500 greenhouses. Even though the responsibility for the recovery of the sum of Rs.5 millions paid to the farmers of UvaParanagama for the construction of 100 greenhouses, and remitting to the Treasury in accordance with the agreement rested with the Board, the Board had not discharged that responsibility.
- (d) Out of the loan granted to exporters under the Loan Assistance Programme, loans amounting to Rs.46,486,856 recoverable from 166 exporters had been outstanding over periods exceeding 15 years due to the failure to recover the loan installments systematically, efficiently and on time. Legal action had not been taken for the recovery of the outstanding loans amounting to Rs. 35,256,093 due from 141 exporters. Even though the Courts had ordered exporters relating to 21 cases to pay the outstanding loans amounting to Rs. 6,818,449 prompt steps had not been taken for the recovery of the loans and as such the exporters relating to 16

outstanding loans had defaulted the repayment of the outstanding loans. Under such circumstances provision for bad debts had been made by considering the loan balance of Rs.45,477,591 as irrecoverable.

- (e) An advance of Rs.4,500,000 had been granted without obtaining a performance guarantee in the year 2009 on the contract for the purchase of 1,200,000 pineapple shoots for the Ampara District Pineapple Cultivation Project of the Export Agri Zones Programme. But 174,401 pineapple shoots only had been supplied. Nevertheless the sum of Rs.3,191,993 recoverable from the advance due to the breach of the agreement and the expiry of the agreed period had not been recovered even by 31 May 2013.

3.3 Identified Losses

The following observations are made.

- (a) Work of the private company established with an investment of Rs.1,000,000 for the Leather Goods Project of the Hambantota Bataatha Industrial Programme had been abandoned. As such the Board had lost the money invested as the company had become inactive at the inception itself.
- (b) The private company established with an investment of Rs. 2,400,000 for the upliftment of the Gem and Jewellery Industry had been dissolved in the year 2012 as it had become inactive and out of that investment, the Board had received Rs. 1,000,000 only.

3.4 Resources of the Board given to other Government Institutions

Contrary to the Public Enterprises Circular No. PED/12 of 02 June 2003 five motor vehicles and 04 officers of the Board had been attached for service in the Line Ministry since the year 2007. A sum of Rs. 8,193,074 comprising Rs. 3,694,779 for the

maintenance of the motor vehicles and Rs. 4,498,295 for the salaries and allowances of the officers in respect of the years 2010 to 2012 had been paid from the Board Fund.

3.5 Composition of Staff

The position of approved and actual cadre of the Board as at 31 December 2012 had been as follows.

<u>Classification of Staff</u>	<u>Number Approved</u>	<u>Actual Number</u>	<u>Number of Vacancies</u>
Tertiary Level	14	11	03
Secondary Level	193	156	37
Primary Level	75	63	12
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Total	<u>282</u>	<u>230</u>	<u>52</u>

Ten officers/employees had been recruited on contract basis for the existing vacancies without the formal approval and sum of Rs. 2,403,935 had been paid as salaries and allowances as at 31 December 2012.

4. Accountability and Good Governance

4.1 Internal Audit

Even though the Internal Audit Programme had been prepared, carrying out the audit work had been at a weak level. The Board had not paid attention to the deficiencies reported by the Internal Audit with a view to rectifying the deficiencies.

4.2 Budgetary Control

According to the budget for the year 2012, the export development expenditure and the recurrent expenditure amounted to Rs.468.7 million and Rs.259.7 million respectively whereas the actual expenditure by the end of the year amounted to Rs. 332.2 million and Rs. 306.4million

respectively. As such the actual expenditure represented 71 percent and 118 per cent of the budgeted provision, thus indicating that the budget had not been made use of as an effective instrument of management control.

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 from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Investments
- (c) Recovery of Loans
- (d) Income Control
- (e) Assets Control
- (f) Conduct of Trade Exhibition
- (g) Budgetary Control