

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance 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 Finance Act No. 38 of 1971. In accordance with Article 154 (6) of the Constitution, my comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2019, and of its financial performance and 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 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 Company 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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Although the balance of Rs. 104,676,878 receivables in Value added tax had been mentioned in the financial statements since 2012, there is no balance to be paid to the Board as per the letter dated on 17 February 2020 sent by the Inland Revenue Department	A letter was issued to us by the Inland Revenue Department on 17.02.2020 confirming that there is no balance to be paid for the Export Development Board regarding tax number TIN 409015026-7000. Expected to follow the advice given by the	Action should be taken to cut off the balance from the accounts.

regarding tax revenue under Audit and Management
 TIN 409015026-7000. But the Committee after presenting it
 board had not taken any action to them.
 to write off the balance from
 accounts.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) The balance receivable of Rs 10,403,683 which has to obtain from Uva Provincial Agriculture export zone from 2009 was mentioned in the financial statement and the people who had obtained these loans had been identified during the year under review, but had not been confirmed and collected the balances.	As per the instructions of the Audit and Management Committee, previous ledger reports and vouchers are being still checked for compare the balances.	Action must be taken to recover the balances.
(b) The amount of Rs. 9, 468,431 regarding the 11 debt balances included in other debtors had not been recovered though it was expired in 06 months.	Still doing recoveries	Action should be taken to recover quickly.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
The accrued expenses balances as at 31 December 2019 were Rs 78,877,848, which included a sum of Rs.1,272,629 payable expenses for the year of 2017 and 2018.	There was a delay of making adjustments regarding the expenses of the 2020 due to the absence of invoice an approval of payment sum of Rs 772,629. In 2018, the amount of Rs 500,000 cheque was issued for payment but had not presented by the company. So the cheque was invalid and provision allocated.	When there is a provision, have to make the payment without any delay.

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) Financial Regulation 395	There is no action had been taken regarding the unrecognized deposits for the year 2017 and 2018 to the amount of Rs. 263,078 until 31 December 2019.	The sum of Rs 263,078 of the unrecognized deposit is going to credit to the revenue accounts after doing inquiries from bank and relevant sectors.	Should comply with the Financial regulation.
(b) Financial Regulation 396	Instead of taking action in terms of Financial Regulations relating to dishonored cheques amounted at Rs.900, 000 issued to creditors as at 31 December 2019 expired for over a period of 06 months, it had been shown in the financial statements as cheques had not presented for payment.	After submitting these cheques for signature and for settlement retain them with the expectation of extending the date and reissuing this.	Should comply with the Financial regulation.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 66,745,210 and the corresponding deficit in the preceding year amounted to Rs. 99,415,402. Therefore an improvement amounting to Rs. 166,160,612 of the financial result was observed. The reason for the improvement is that the profit Rs. 55,333,427 arises from the investment in Associate Company.

2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure items of the year under review compared with the preceding year are given below.

- (a) Profit share by the investment on DHPL a company associated with board have increased about 160 percent while comparing this year with the previous year.
- (b) The Export Development Expenditure of the Board had decreased by 21 percent in the year under review as compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As at 31 December 2019, the amount of Rs 105,117,477 had been invested in preference shares of 29 companies which were closed and inactivated. Due to the inability to find out those companies, legal actions had not been taken.	Most of the companies which were mentioned here are inactive. Inquiries were made from the Registrar of Companies in accordance with the advice given by the Attorney General's Department. According to the act 487(5) companies' act, all the assets and liabilities of inactive companies should be confiscated. Hence, we have asked from the department of registration companies to get to know whether those assets and liabilities are already confiscated.	Action should be taken after observe the position of the assets and liabilities of inactive companies.
(b) As at 31 December 2019, the amount invested in ordinary shares of 33 companies was Rs. 58,312,483. Among these companies, 31 companies were unprofitable and inactive and the board had made an inquiry to the department of company registrar to get to know whether the company's assets and liabilities are confiscated. During the year under review, only 2 companies received	Most of these companies which mentioned here are inactive. Dividends were received from the companies which are operating.	Action should be taken after observe the assets and liabilities of inactive companies.

dividends of Rs. 193,538. Accordingly, the rate of return on investment was as low as 0.4 percent.

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| <p>(c) Sri Lanka Expo Management Pvt Ltd Company had voluntarily closed the accounts. Company name was strike off from the company name register on 2010.01.22. Even though it has passed 10 years, the impairment were done in financial statement up to the year under review regarding the invested amount of Rs.1,980,130 in ordinary shares and the actions had not been taken to write off the amount from the accounts.</p> | <p>Sri Lanka Expo Management Pvt. Ltd. has already made provisions for impairment for its investment value. It is hoped to write off from the books after obtaining the relevant approval.</p> | <p>Action should be taken to obtain the relevant approval immediately.</p> |
| <p>(d) Out of the loans given to exporters under the loan scheme in 1980 and 1990, the due loan balance as at 31 December 2019 was Rs. 40,262,508 and the Board had recovered only Rs. 538,993 during the year. It is 1.32 percent of the debt balance at the beginning of the year. Accordingly, it was observed that the Board is in a weak position to recover export loans.</p> | <p>Most of the lending companies were closed and inactive. The failure to find such companies at most of the addresses has led to the inability to take legal action. Therefore, the amounts charged in installments through file the case against companies currently operating or through direct contact will be reimbursed during this year.</p> | <p>Action should be taken to get the relevant approval as soon as possible.</p> |
| <p>(e) While selecting officers for local and foreign trainings, workshops and seminars, fair opportunities had not been given. Some officers were given several opportunities during the year while there are others without a single opportunity despite the considerable service period. Therefore, a</p> | <p>A committee has appointed to select the officers for the training workshops and action had been taken to select the officers on the recommendations of that committee.</p> | <p>Prepare a procedure as every officer would have the training opportunity after get the approval from the board of directors.</p> |

procedure for training should be formulated and approved by the Board of Directors which is still not executed.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The amount of Rs 34,116,691 had spent for the program of converting 2000 entrepreneur to new exporter from 2017 to 2019. Although it was stated in the Board Memorandum No. 2017/03/20 dated 2017 March 30, that a Governing Committee should be appointed to implement this program, the board had failed to do so. In addition, during the selection of venues for these programs, without calling quotations from public sector institutions, an amount of Rs 3,473,425 had spent to hold in 6 private hotels after obtaining quotations from the private sector. Due to the improper procurement procedure, the amount of Rs 299,500 non-economic expenses of food, accommodation and exhibition stall had been spent in Matara program and also Rs. 57,900 had been spent for food to the kurunagela programme. It was further observed that Rs. 215,900 had been spent in excess of the estimated cost. Although the program is expected to attract 2,000 entrepreneurs, only 155 were directed to export during the year of 2017-2019.</p>	<p>Answers not provided.</p>	<p>To achieve the expected goals of the program, board have to support the entrepreneur to suitable position where they can face against foreign market competition by appointing control committee and go through a solid plan as per under the decision of the director board.</p>

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved cadre and the actual cadre of the Board as at 31 December 2019 was 257 and 228 respectively and as such, there were vacancies in 29 posts comprising of 12 posts in Senior Level, 09 posts in Junior Level and 08 posts in Primary Level. Among the vacancies, the position of Additional Director General (Development), Additional Director General (Finance and Administration) were there which as directly relevant to achieve main objective of the board.</p>	<p>As at 31 December 2019, we have got the approval from election commission council to call application without breaking the election rules by using 2019.09.16 (English) and 2019.09.17 (Sinhala and Tamil) newspaper advertisement in order to appoint Additional Director General (Development) and Additional Director General (Finance and Administration) vacancies. However, the appointments could not be made as planned due to confusion over the experience of the candidates who applied for the two vacancies. Therefore, in our letter dated EDB / HRM / FI / REC / 08-2 and 2020.03.20, we have submitted to the Election Commission for approval to made recruitment based on the structured interview results in accordance with the approved recruitment procedure for 7 posts including these two posts. . But these two posts have not been approved. Therefore we sent letter No EDB / HRM / FI / REC / 08-1 and dated on 2020.07.01 to the Election Commission council for approval. Two new officers have been appointed to the two vacant posts of Director (Regional Development) and Director (Policy and Strategic Planning) with effect from 2020.06.25.</p>	<p>Action should be taken to recruit for the relevant posts immediately to achieve the main objective of the Board.</p>

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>Provisions from treasury had not been enough to pay an annual rental of Rs 67.48 million for DHPL building for which the rental was Rs 1,500 for each square feet for 44,990 square feet in total. In order to reduce the annual building rental and with the purpose of using the space in a maximum way, the board has started to restructure by reducing the number of floors from 5 to 4 floors in 2017. However, cost estimation had not been prepared and included in the procurement plan. The Institute of Architects of Sri Lanka, selected without following government procurement guidelines had charged Rs.175, 950 fee for preparing and Rs. 102.5 million for financial and technical reports for restructuring and estimation. Further, Rs. 56,890 had been paid for the newspaper advertisement to invite the bidding process. As no restructuring had been done, this cost is observed as a non - economic expense.</p>	<p>The Board paper No. 179/08/2018 submitted to the Board of Directors for the Restructuring of the Office informs the former Chairperson informed the board that they are going to get the support from the Institute of Architects of Sri Lanka. According to the estimate submitted by the Institute of Architects of Sri Lanka, the total cost of the restructuring is Rs. 102.5 million. Approval of the Board of Directors for restructuring is Rs.20 million because of that work had to be stopped. For this purpose the provisions had been made in the 2019 Action Plan and Budget.</p>	<p>Follow the government's procurement guidelines and prepare a cost estimate to restructure at minimal cost.</p>