

## **Sri Lanka Export Development Board - 2022**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2022, 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 Opinion**

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 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 intends 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 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 skepticism 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 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 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Accounts Receivable and Payable**

### **1.5.1 Receivables**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The amount receivable from 148 exporters out of the export credit given by the Board to the exporters as at 31 December 2022 was Rs.38,174,012. A 97 percent of that amount, that is Rs. 36,978,012, was the 24 year old loan balance and it should have been receivable from 147 exporters. The value of the remaining 3 percent equal to Rs.1,196,000 was a credit balance of 16 years old and it had been receivable from one exporter.	Actions are being taken to recover the amount of Rs.38,174,012 receivable from the aforesaid companies, through existing companies and it has been forwarded to the Ministry of Finance for approval to write off the respective loans as per the concurrence received in the Meeting of Board on the recommendations of the Audit Committee to write off the relevant loans receivable from the non-performing companies.	Necessary measures should be taken for the recovery of balances receivable.
(b) The Board had given export credit of Rs.1,450,743 to two companies and an amount of Rs. 4,853,000 had been applied for the equity investment in those two companies. Nevertheless, those two companies had been closed inactive at the present and, the total of the amounts receivable from the two companies as at the end of the year under review was Rs. 6,303,743 .	Arrangements are being taken to continue the legal action already taken because of the two companies in which the Board has invested shares and given export credit are currently inactive closed companies.	Amounts receivable should be recovered promptly.

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| (c) | The Board had failed to recover a sum Rs.10,403,683 given for the Uva Paranagama Export Production Villages (UPEPV) Programme during the period of 13 consecutive years from the year 2009 . | This programme is inactive at present and it has not been possible to collect the relevant money so far due to the deficiencies in the related information. | Necessary actions should be taken to recover the balances receivable and actions should be taken in terms of Financial Regulations in respect of irrecoverable balances. |
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### 1.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
(a)	Section 11 of the Finance Act No. 38 of 1971	Although the Board should obtain the approval of the Minister of Finance and the approval of the respective Minister while investing the excess money, the total of investments made only with the approval of the Board of Directors without obtaining such approval was Rs.53,490,411 as at 31 December 2022.	Providing of Treasury provisions have been limited allowing the Board to settle the building rent payable to DHPL from its own income. Accordingly, a sum of Rs. 53,490,411 as fixed deposits and Rs. 10,000,000 as call deposits have been temporarily invested after obtaining the approval of the Board of Directors on the recommendations of the Audit Committee with the aim of earning interest income instead of keeping the excess money from other incomes received by the Board apart from the provisions receive from the Treasury and the money collected from the exporters for future development programmes in the	Actions should be taken in accordance with the Finance Act.

current account until making future payments with the view to providing the necessary funds for that. Actions will be taken to pay the building rent of the year 2022 using the fixed deposit amount and the interest received for the deposits.

- (b) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016
- Although an examination should be carried out on the amount of fuel burnt in each vehicle after a period of every 12 months or after driving a distance of 25,000 km or whichever occurs first, fuel test had not been done for 22 vehicles owned by the Board.
- Actions will be taken by the Board in terms of the circular in the future.
- Actions should be taken in accordance with the Circular.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 218,857,086 and, the corresponding surplus of the preceding year was Rs. 211,709,684. Accordingly, an improvement of Rs. 7,147,402 was observed in the financial result. Increase in impairment overprovision for investments and other receivables by Rs.137,038,488 and decrease of profit share of associate company by Rs. 119,190,431 had mainly attributed for this improvement.

## 3. Operational Review

### 3.1 Uneconomic Transaction

Audit Observation	Comments of the Management	Recommendation
The Board had invested a sum of Rs.105,117,478 in redeemable preference shares of 29 companies and a sum of Rs.56,332,354 in ordinary shares of 34 companies as at 31 December 2022. Any dividend was	It has been impossible to receive any dividend from investee companies in preference shares which may be exempted by the Board and actions are being	Effective investment decisions which gives maximum return on assets should be made.

had not been received on the preference shares during the period of 18 years from the year 2005 to the year 2022 and no dividend had been received for the invested amount totalled to Rs. 9,183,784 invested in ordinary shares of 14 active companies .

taken to look into the financial and operational status of companies that are currently active but have not paid dividends by looking into the ability of receiving of dividends income to the Board in the future.

Likewise, it is further mentioned that the Board is working to take remedial measures to recover the money invested in the said companies and is currently taking steps to recover the said money.

### 3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Actions had been taken to write off the names of 28 companies in which the Board had invested a total of Rs.89,469,028 in preference shares and ordinary shares from the register of companies because of failure of taking actions as a shareholder in companies in terms of Section 487(4) of the Companies Act No. 07 of 2007 .	It is difficult to find the facts about whether a request to get a new number has been made in relation to the relevant companies when a making requests to get a new number within a period of 06 months during the period when Act No. 7 of 2007 came into effect in respect of companies which were written off under Section 487 of the Companies Act out of existing dormant companies invested in redeemable preference shares and ordinary shares as at 31 December 2022. It is further mentioned that the Board is collecting the data of the directors of the invested companies and discussing with them.	Timely and efficient management decisions should be made to ensure security of investments.

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| (b) | Even though a period of time had elapsed from 07 years to 24 years since the agreements related to the deposits made regarding 07 institutions amounted to Rs.901,000 for receiving services to the Board in terms of the agreement, actions had not been taken to recover that amount.   | As the Board has terminated the receipt of services rendered in relation to 7 deposits totalled to Rs.901,000 for services, the necessary activities are being taken by now to recover. Accordingly, although the necessary steps have been taken to recover the respective deposits impairment provisions have been made considering the uncertainty for that.  | Prompt actions should be taken to collect balances receivable.                     |
| (c) | Since the selected supplier had failed to perform the relevant tasks in terms of the agreement entered into with the selected supplier dated 07 April 2021 to get handouts printed for local and foreign trade shows, the Board had failed to recover the advance of Rs.237,875 paid out of tax free order value of Rs.1,189,375 and liquidated damages of Rs.300,000 in terms of Section 3.6 of the Agreement. | Although great efforts were made to improve the quality of these handouts through online as well as physical discussions, as they failed to bring the plans to the desired level of the Board, actions were taken to suspend the activity. Although the requests were made to refund the advance amount of Rs.237,875 paid to the contracted entity, as they have failed take actions, relevant legal measures have been taken at present. | Prompt actions should be taken to recover the damages from the respective parties. |

### 3.3 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An allocation of Rs. 2.1 million was made in 2017 for the purchase of a new video camera and a digital SLR camera to the Media Division of the Board and although the procurement process had been commenced in March 2017, due to change of Members of Technical Evaluation Committee on several occasions, non-functioning of said Committees and failure of conducting	Although the procurement activities have been commenced in 2017 for the purchase of a new video camera and a digital SLR camera to the Media Division, the Management has decided not to purchase new cameras after observing the condition of	Procurement activities should be completed within the planned time frame.

of Procurement Committees, it had taken more than 05 years to complete the procurement activities. According to the selected supplier in the year 2022, the total value of video camera and digital SLR camera was Rs.4,385,500 and due to the increase of the prices of goods as a result of delay in procurement activities only the digital SLR camera valued at Rs.2,086,700 could be purchased within the existing limit.

the existing cameras by considering the shortage of funds for acquiring fixed assets at that time. However, as it was not in a suitable condition to be used due to the technical faults in the existing cameras by the year 2021, actions have been taken to purchase a high quality camera with new technical features for capturing video and still images for the two cameras exists in the year 2022 .

### 3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
(a) The Ministry of Trade had assigned 299 Development Officers to the Sri Lanka Export Development Board and 14 of them had been assigned to the Head Office of the Board, 16 to the Regional Offices of the Board, and the remaining 269 to the District and Divisional Secretariat Offices. It was not revealed in audit that except the officers attached to the Head Office, the other 285 officers are doing a sufficient duty.	In appointing Development Officers, they have been assigned from time to time through the relevant Line Ministries without carrying out any discussion with us about the needs of the institution. Assigning of these officers to the Divisional Secretariats is at the discretion of the Ministry of Public Administration and the respective Line Ministry . We have informed the relevant Line Ministry and the Ministry of Public Administration that the number of Development Officers is more than our service requirement.	Necessary actions should be taken to transfer the excess officers to the institutions where vacancies exists or to employ such officers efficiently and effectively.
(b) Although the approved staff of the Board was 250 as at 31 December 2022, thus the actual staff was 176, there were vacancies in 74 posts. There were	Necessary steps have been taken to recruit for the respective posts.	Necessary measures should be taken to fill up essential vacancies in posts.



06 higher management level positions, 17 middle management level positions and 12 junior management level positions within those vacancies. As a result, the Chief Executive Officer, the Director General, of the Board were also in acting based posts.