

Sri Lanka Export Development Board - 2015

The audit of financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 16 of the Sri Lanka Export Development Board Act, No. 40 of 1979. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-section (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of matters described in paragraph 2.2. of this report the financial statements give a true and fair view of the financial position of the Sri Lanka Export Development Board as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

Government grants amounting to Rs.3,492,459 and Rs.8,779,054 had been received during the year under review and the preceding year respectively for the purchase of capital assets and that had been adjusted to the income instead of being brought to account as capital grants.

(b) Sri Lanka Accounting Standard 16

(i) In view of the failure to carry out an annual review of the effective life of the non-current assets in terms of the Sri Lanka Accounting Standard 16, assets costing Rs.467,705 which had been fully depreciated had been used continuously. As such action in terms of the Sri Lanka Accounting Standard 03 had not been taken for the revision of the estimated error.

(ii) The rates of depreciation for the other equipment had not been disclosed in the financial statements.

(c) Sri Lanka Accounting Standard 19

Action had not been taken for the use of Project Unit Loan System for the computation of the employees benefit commitments.

(d) Sri Lanka Accounting Standard 24

Even though the Chairman of the Board is also a member of the Board of Directors of the Associate Company of the Board, the information on the extent of the contribution of the Board in taking decisions of the Company relating to its operating and financial activities as well as the payments made by the Board to the company in connection with the rent of buildings, auditorium fees and the expenditure on water, cleaning services, electricity had not been disclosed by way of a Note.

(e) Sri Lanka Accounting standard 38

 The sum of Rs.5,128,000 spent on the development of the Web Site of the Board had not been recognized as an intangible asset.

(f) Sri Lanka Accounting Standard 39

 According to the financial statements of the Board for the year under review, the outstanding export loan balance amounted to Rs.46,120,175 and impairment provision for Rs.45,477,591 out of that had been made. The impairment provision at equal amounts had been made from the year 2012 to the year 2015 without taking into consideration, the progress of the recovery of the export loans and as such a sum of Rs.379,868 received from the impaired companies had not been adjusted to the relevant accounts.

- (i) The financial instruments amounting to Rs.163,370,566 as at 31 December of the year under review had been brought to account as non-current financial assets.
- (ii) Dividends had not been received during the period of 07 preceding years from 04 companies in which investments in shares valued at Rs.25,750,000 had been made. Impairment provision had not been made in that connection.

2.2.2 Accounting Deficiencies

 The following observations are made.

- (a) Action had not been taken to identify and settle the unusual credit balances of Rs.387,000 in the Debtors Account and the unusual debit balances of Rs.10,528,683 in the Creditors Account as at the end of the year under review.
- (b) The depreciation relating to the computer software amounting to Rs.1,920,799, computer equipment amounting to Rs.22,555 and telephone fixtures amounting to Rs.8,750 purchased in the year 2015 had not been adjusted.
- (c) Even though the Government grants received for the purchase of capital assets should be recognized as profit or loss systematically according to the effective life of the assets, and a sum of Rs.13,347,223 should have been brought to account in the year under review as the amortisation. Nevertheless, a sum of Rs.3,323,500 only had been brought to account in the financial statements.
- (d) A sum of Rs.3,181,941 refundable to the exporters had been brought to account as income and as such the current liabilities of the year had been understated and the income had been overstated by that amount respectively.
- (e) The interest on the loans given by the Board in 06 instances up to 24 December 2002 to the Export Products Villages Company for the establishment of the Export Products Villages amounting to Rs.2,997,619 had not been brought to account.

2.2.3 Unexplained Differences

The balance of the Loan Fund as at 31 December 2015 according to the Schedule of Loans amounted to Rs.7,716,549 whereas according to the financial statements that balance amounted to Rs.7,888,533. As such an unexplained differences of Rs.171,984 existed.

2.2.4 Lack of Evidence for Audit

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

Item of Account -----	Value ----- Rs.	Evidence not made available -----
(a) Accrued Expenses	12,821,283	} Schedules and Age Analysis
(b) Refundable Deposits	8,197,360	
(c) Expenditure on the Skills Development Programmes	4,728,200	Particulars of the Payment Vouchers and the Programme on which expenditure was incurred

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The amount payable as at 31 December of the year under review for the loan granted from the Rural Economic Resuscitation Fund for the Project commenced with the Uva Paranagama Village as the basis with the objective of continuous production of the vegetables of export quality amounted to Rs.5,000,000.
- (b) Action had not been taken even by 31 December of the year under review, for the recovery of a sum of Rs.71,254 recoverable from 02 officers who had vacated posts and a sum of Rs.51,235 recoverable from a debtor.
- (c) A sum of Rs.127,465 out of the money paid to the Ministry of Foreign Affairs on account of the expenditure of two officers who had attended business meeting held in Poland on 27 March 2013 on behalf of the Board had not been settled even up to 31 December 2015.

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though the letter of appointment to the Post of Executive Director of the Board stated that the appointment was made in accordance with Section 23(1) of the Sri Lanka Export Development Board Act, No. 40 of 1979 to facilitate the activities of

the Board, that Section of the Act did not provide for the appointment of officers. Since the appointment made in the year 2010 up to the year 2015, the officer had been paid a sum of Rs.4,076,773 as salaries and allowances, a sum of Rs.6,270,670 as the hire of the motor vehicle provided for duty and private travel and a sum of Rs.2,122,770 as the allowances and travelling expenses for foreign travel totalling Rs.12,470,213. Even though the delegation of authorities for financial control had not been made he had signed cheques as well.

- (b) According to the instruction in the direction made by the Committee on Public Enterprises at the meeting held on 08 June 2012, motor vehicles should have been obtained on hire basis at Rs.60,000 per month with effect from 03 June 2011 in accordance with the Treasury instructions. Contrary to that directive, the Board had obtained motor vehicles on hire basis from that date to 31 December 2015 and overpaid a sum of Rs.11,703,560.
- (c) Even though the Board had paid a sum of Rs.76,999 not included in the approved estimate to the Ministry of Foreign Affairs for carrying out the co-ordination activities during the period in which the Fancy Food Trade Exhibition was held, the approval of the Board of Directors had not been received for the payment.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules and Regulations

Non-compliance

(a) **Sri Lanka Export Development Board Act, No. 40 of 1979**

(i) Section 2(1)

The National Development Council for the Implementation of Export Development Programmes and Policies had not met during the period of 23 years from the Year 1992 to the year 2015.

(ii) Section 13(1) and (2)

A Fund called the Export Development Fund should be established and all moneys required to defray the expenses incurred in the implementation and execution of the powers and functions of the Board shall be paid from such Fund of the Board. Nevertheless, action had not been taken even by 27 December 2016 for the establishment of such Fund in terms of such Section.

- (b) Section 47 of the Employees' Provident Fund Act, No. 15 of 1958 and Section 44 of the Employees' Trust Fund Act, No. 16 of 1980
- Special Allowances, Professional Allowances, Interim Allowances and the Special Living Allowances not approved should not be taken into account for the computation of contributions to the Employees' Provident Fund and the Employees' Trust Fund whilst the Cost of Living Allowances shall be taken into account for the computation of contributions to the Employees' Provident Fund and the Employees' Trust Fund whilst the Cost of Living Allowance shall be taken into account. As the computation had been done contrary to that, the Board had made excess contributions amounting to Rs.5,508,199 and Rs.659,375 to the Employees' Provident Fund and the Employees' Trust Fund respectively during the years 2012 to 2015 subjected to audit.
- (c) Section 6(2)(a) of the Payment of Gratuity Act, No. 12 of 1983
- Special Allowances, Professional Allowances, Interim Allowances and Special Living Allowances not approved shall not been taken into account for making provisions for the gratuity whilst the Cost of Living Allowance shall be taken into account. As the computation had been done contrary to that, an excess provision of Rs.19,298,351 had been made for gratuity up to 31 December 2015.
- (d) **The Establishments Code of the Democratic Socialist Republic of Sri Lanka**
-
- (i) Sections 4.1 and 10.1 of Chapter VIII and Section 2 of the Public Administration Circular No. 21/2013 of 07 October 2013
- Even though a Staff Officer required to work on a holiday should serve for not less than 8 hours per day, instances of serving less than 8 hours per day and adding the number of hours worked beyond the office hours on the week days and converting to the number of days and a sum of Rs.229,932 had been paid as holiday pay.
 - A sum of Rs.119,463 had been paid to 24 officers for serving on more than 02 holidays per month without obtaining the approval of the Secretary to the Ministry.

(ii) Section 7 of Chapter VIII

Even though the approval of the Secretary to the Ministry should be obtained for the payment of overtime exceeding 20 hours per month, 48 officers had been paid overtime amounting to Rs.98,763 without obtaining such approval.

(iii) Section 4 of Chapter XIV

Even though an officer should be paid the Combined Allowance for his subsistence and lodging for a period of duty out of his normal place of duty, such periods had been converted to days and a sum of Rs.36,979 had been paid to 12 officers by computing at 1/20 of the monthly salary of the officer.

(iv) Section 11.1 of Chapter XV

Even though all air travel should be done by using the Economy Class, contrary to that a sum of Rs.2,105,300 had been spent in the years 2014 and 2015 for the purchase of Business Class Air Travel Tickets for three officers of the Board.

(e) **Public Administration Circulars**

(i) Circular No. 21/2007 dated 11 September 2007 and Sections 10.1 and 10.1.1 of Chapter XV of the Establishments Code

Two officers who had attended the EXPO Milano Trade Exhibition had been paid a sum of Rs.605,803 for the period they were out of the Island beyond the approval obtained from the Prime Minister before leaving the Island.

(ii) Circular No. 13/2008 (iv) of 09 February 2011

In the payment of the fuel allowance to the officers who are entitled to assigned official motor vehicles, fuel allowance exceeding the entitlement to the post had been paid. The fuel allowance paid in excess of the specified limit during the period from 01 January 2014 to 01 June 2015 subjected to the test check amounted to Rs.213,302.

(f) **Treasury Circulars**

Circular No.842 of 19 December 1978

A Register of Fixed Assets had not been maintained.

(g) Public Finance Circulars

- (i) Circular No. IAI/2002/02 of 28 November 2002 Even though a separate Register of Fixed Assets for Computers, Accessories and Software should be maintained, it had not been so done in connection with the computers and accessories valued at Rs.33,066,961.
- (ii) Circular No. 02/2014 dated 17 October 2014 The Board of Survey for every financial year should be appointed before 15 December of such year and the survey of goods should be completed before 26 February of the ensuing year and furnish those reports to the Auditor General. Nevertheless the Board of Survey for the year 2015 had not been conducted even by 04 August 2016.

(h) Public Enterprises Circulars

- Section 5.2.5 of Circular No. PED/12 of 02 June 2003 Even though the approval of the Treasury for the budget for the ensuing year should be obtained before 15 days of the commencement of the said year, the budget for the year 2015 had not been sent for the approval of the Treasury even by 12 March 2015.
- (i) Public Finance Circular No. PF/PE 5 dated 11 January 2000 and the Public Enterprises Circular No. 95 of 14 June 1994 (i) Even though a benefits specifically approved by the Cabinet of Ministers or the Ministry of Public Administration or the Treasury can be paid to its employees with the approval of the Board of Directors, the approval of the Treasury had not been obtained for the Professional Allowance and the Special Living Allowance paid with the salary from the year 1992. Such Professional Allowances so paid during the three preceding years and the year under review amounted to Rs.2,182,894 and the Special Living Allowances amounted to Rs.18,284,887.
- (ii) The Board had not obtained the approval of the Treasury for the supply of transport services and the payment of the Transport Allowance to the office employees. The Board had paid Transport Allowance of Rs.5,500 per month to the Deputy

Directors who do not use the transport service whilst a daily payment of Rs.172 had been made to other officers. Accordingly, the expenditure incurred during the year under review for the supply of transport facilities to the employees amounted to Rs.12,458,798.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Board for the year ended 31 December 2015 amounted to a surplus of Rs.70,144,039 as compared with the corresponding surplus of Rs.105,751,865 for the preceding year, thus indicating a deterioration of Rs.35,607,826 in the financial results for the year under review as compared with the preceding year. The decrease in the Government grants and the decrease of other income had mainly impacted the deterioration of the financial results.

An evaluation of the contribution of the year under review and 04 preceding years indicated that despite the improvement of the contribution by 2.6 per cent to 85 per cent from the year 2011 to the year 2013, such contribution in the year under review and the preceding year had decreased by 0.93 per cent and 0.29 per cent respectively.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The objectives according to the Annual Report of the Board are given below.
- i. To increase Sri Lanka's export income to US \$ 20 billion by 2020, in line with Mahinda Chinthana – vision for the future.
 - ii. To increase exports to other markets by over 50 per cent of the total export earning while stabilising Sri Lankan Export to the Market of European Union and United States of America.
 - iii. To pay particular attention to the seven identified key product sectors, which will contribute over 80 per cent of total export value and achieve significant growth in those sectors.
 - iv. To project a more positive and a favourable image of Sri Lanka's exports as a whole through the conduct of integrated marketing communication programmes in selected markets.

- v. To broad-base benefits of exports across the country and all parties engaged in that field.
 - vi. To build a team excellence at the EDB based on core values, with particular emphasis on employee productivity and commitment.
- (b) The expenditure incurred during the preceding year and the year under review on the domestic and foreign Trade Exhibitions and the Promotion Programmes implemented in the Agricultural, Fisheries and Industrial Sectors by the Board for maximizing the export income and the supply of a contribution to the National Economy amounted to Rs.245,617,331 and Rs.300,282,287 respectively. Nevertheless, the overall improvement of the export income of those Sectors in the year under review as compared with the preceding year had decreased by 5.75 per cent.
- (c) Even though programmes on joint Agri-model, Agri-zonal and Agriculture had been identified as Export Promotion Programmes for the year 2015 and annual estimates provision of Rs.60,860,000 had been allocated for that purpose, a sum of Rs.13,280,000 or about 40 per cent of that only had been spent as the export development expenditure. As the criteria and procedure for the follow-up action for the evaluation and review of the achievement of the objectives of such programmes had not been prepared, such programmes had failed.
- (d) Twenty four activities amounting to Rs.35,220,000 of the year 2014 and 52 activities amounting to Rs.67,220,000 of the year 2015 had not been executed according to the Action Plans. Five programmes amounting to Rs.850,000 of the year 2014 and 09 Programmes amounting to Rs.16,350,000 of the year 2015 had been included in the Action Plans without holding preliminary discussions with the institutions, persons and organisations connected with the programmes and without carrying out an advance review of the social, economic and political background of different countries and as such those could not be implemented. The reasons for not implementing the balance programmes had not been furnished to Audit.
- (e) The reasons for not making provision of funds for the year 2016 and for not including in the Action Plan for the year with regard to the projects implemented under the Regional Development Division from the year 2013 to the year 2015 and the Projects which will be implemented in the ensuing years had not been revealed.

4.2 Management Activities

The following observations are made.

- (a) The Project on the Collection of Development Information of the Northern and Eastern Provinces approved by the Board without a Project proposal had not been included in the Action Plan or the Budget for the year 2014. The project which should have been implemented in 09 months from March 2014 had not been implemented even by 25 July 2016. Even though the Field Officers serving in the Government institutions had been selected for the implementation of the Programme, the approval for the attachment of those officers and the payment of allowances had not been obtained from the Treasury.

(b) **EXPO Milano Exhibition**

 The following observations are made.

- (i) An excess expenditure of Rs.4,440,336 had been incurred without the approval of the Cabinet of Ministers in connection with the Expo Milano 2015 Exhibition held in Milano, Italy from 01 May to 31 October 2015 with the objective of promoting the Trade and Tourism Industry of Sri Lanka.
- (ii) In view of the disagreement created by the Expo Commissioner General appointed for this Exhibition without the approval of the Cabinet of Ministers, with the Expo Authority, the contribution of Rs.12,960,000 of the Government of Italy for creating the Exhibition stall of Sri Lanka had been deprived of to Sri Lanka. As such a sum of Rs.27,944,464 had to be spent for the creation of Exhibition Stall. Even though that officer had been removed from the post due to this reason any course of action whatsoever had not been taken for the recovery of the sum of Rs.12,960,000 deprived of to the Government from the officer concerned.
- (iii) Out of the Board contribution to the Exhibition amounting to Rs.16,670,000 a sum of Rs.10,000,000 had been paid by 06 August 2015 to the Sri Lanka Tourism Promotion Bureau. Even though the Exhibition ended on 31 October 2015, concurrence with regard to the contribution to the actual expenditure thereon had not been reached. The provision for the further payment of Rs.6,670,000 to be made by the Board had not been made in the financial statements for the year 2015 whilst the letters on the confirmation of balances had not been furnished to Audit.
- (iv) According to the Cabinet Memorandum a sum of Rs.5,040,000 had been allocated for the Expo Sri Lanka Day. Nevertheless, a sum of Rs.1,079,688 had been spent exceeding the allocated amount without the approval of the Cabinet of Ministers in connection with the participation of the Chairman and the Additional Director General of the Board on that day.
- (v) Even though the Directors who participated in the Exhibition could have undertaken the responsibility for participation in the media discussions, a sum of Rs.163,194 had been spent on the Chairman of the Board for participating in a media discussion while on a private visit to Switzerland without obtaining the permission of the President.
- (vi) Officers of the Board had been selected as the Exhibition Directors without following any plan and specified basis. Those officers had been paid Rs.3,770,640 as foreign travel allowance without obtaining the Treasury approval in terms of Section 04(d) of the Ministry of Finance Circular No. MF01/2015/01 dated 15 May 2015.
- (vii) The officers selected as the Exhibition Directors had been paid a sum of Rs.120,459 without approval for being on duty beyond the specified time.

(c) **Investments**

The following observations are made.

- (i) Even though 3 companies in which the Board had invested a sum of Rs.17,315,000 in ordinary shares had been dissolved during the year under review, action had not been taken for the recovery of that money.
 - (ii) The Board had not taken a formal course of action for realizing the investments made relating to Preferential shares valued at Rs.93,841,428 in 18 companies and the ordinary shares valued at Rs.5,132,890 made in 17 companies which had been removed from the Register of Companies due to the failure to re-register under the Companies Act, No. 07 of 2007.
- (d) According to the provisions made in Section 25 of the Finance Act No. 38 of 1971 and the Public Enterprises Circular No. 95 of 14 June 1994 for the creation of Special Funds, such Funds should be created subject to those provisions and should function subject to the general direction and control of the Minister of Finance. Nevertheless, contrary to that the Board had created a Loan Fund without approval. Further the Board had credited one per cent per month from the combined salaries of the employees and 7.2 per cent interest by utilizing of Government grants to the unauthorized Fund referred to above. Accordingly, the employees contribution to the Loan Fund as at the end of the year under review amounted to Rs.5,149,018 whilst the interest on the contribution amounted to Rs.2,567,531.

4.3 Operating Activities

The expected activities of the Export Products Village commenced for the cultivation of chilies, passion fruit and pineapple in a land 250 acres in extent situated in the Mannar District by providing with agri-implements and agri-wells to 500 beneficiaries from provisions amounting to Rs.22,340,000 should have been completed by 31 March 2015. Nevertheless, an advance of Rs.1,050,000 had been issued on 26 May 2015 for the construction of tube wells to 15 beneficiaries without carrying out any of the other activities such as providing implements to the beneficiaries, setting up of harvest collection centres and connecting to the market with the exporters.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.4,728,200 had been paid to a Private Driver Training Institution for the training of Drivers under the Skills Development Programme implemented in the Mannar, Mullativu and Vavuniya Districts. The Board had not taken action to ascertain the nature of training related to the Export Sector provided through a Private Driver Training Institution. The attention of the Board had not been paid to ensure whether those who had completed

the training had done any work relating to export or for making the necessary arrangements in that connection. This Project had been abandoned as the activities related to the Skills Development Project had not been included in the Action Plan for the year 2016.

- (b) Contrary to the provisions in Section 12(1) of the Sri Lanka Export Development Board Act, No. 40 of 1979 the Board had joined as a partner of 2015 conference held by the Sri Lanka Chamber of Ceramics and Glass Works Industries of which the previous Conferences had been held independently in the years 2002, 2004, 2006, 2011 and 2013 and had spent a sum of Rs.455,000 in that connection. The sum of Rs.500,000 allocated for the Tile Industry Development Programme had been utilized for the purpose.

4.5 Uneconomic Transactions

The following observations are made.

- (a) A sum of Rs.296,809 at the rate of Rs.4,000 per month had been paid as lease rent with effect from 07 May 2014 to 29 February 2016 without an agreement and valuation report to the Associate Company of the Board for a land to be used as a vehicle park. But that premises had not been used for parking of vehicles
- (b) The Pineapple Cultivation Project of 50 acres in extent commenced at a cost of Rs.7,280,000 had been abandoned as it had not been commenced under proper management and without carrying out a feasibility study. Further, the commencement of a Project for cultivation of chillies once again in the Mannar District without a follow up of the success of the chillie cultivations done at a cost of Rs.22,720,000 in the year 2010 in the Vavuniya and Mannar Districts is not a fruitful activity.
- (c) Any dividends whatsoever had not been received in respect of the period from the year 1997 to 2014 for the investment of Rs.105,058,084 in the preferential shares of 30 companies and in respect of the period from the year 2001 to the year 2015 for the investment of Rs.58,312,484 in the ordinary shares of 35 Companies.
- (d) Even though 8 officers with experience in the creation of Web pages and two Computer Programmers are deployed in service a sum of Rs.5,128,200 had been paid without the approval of the Board of Directors to a private institution for the development of a Web Site for the Board during the period 30 June 2014 to 29 June 2015.

4.6 Identified Losses

The following observations are made.

- (a) According to the agreements entered into between the Board and the suppliers of the office transport services, the Board had not agreed to provide vehicle parking facilities. Nevertheless, it had not been possible to recover the sum of Rs.835,009 paid as the vehicle parking fees from the bus owners.

- (b) The late fees and the cancellation fees for the purchase of air travel tickets by the officers of the Board amounting to Rs.51,000 in the year 2014 and Rs.7,000 up to 30 June 2015 had been paid by the Board.
- (c) According to the agreement entered into by the Board with the institution supplying the security services, the charge per day inclusive of tax amounted to Rs.16,780. Nevertheless, payment had been made by adding the tax again to the charge inclusive of tax. As such a sum of Rs.325,686 had been paid in excess to the agreed amount from January to July 2015 whilst an overpayment of Rs.157,900 had been made due to the failure to make payment according to the duty shifts of the approved staff.
- (d) The Board had incurred losses totalling Rs.504,135 comprising Rs.49,467 due to the failure to award the contract for the internal partitioning of the office to the institution which submitted the lowest quotation, a sum of Rs.75,000 receivable for the materials removed, a sum of Rs.282,233 due to the alteration of the original design, Rs.7,286 paid in excess of the agreed amount and the liquidated damages amounting to Rs.90,149.
- (e) A sum of Rs.225,370 had been spent in excess of the amount approved by the Board for the Trade Exhibition conducted in the United Arab Emirates from 08 to 12 February 2015 by the participation of 25 Exporters engaged in the Food and Beverages Processing and Export Sector, due to taking action contrary to approval of the Board of Directors.
- (f) Even though the organizing activities of the Trade Exhibition held from 13 to 17 November 2013 under the direction of the Ministry of Economic Development, concurrently with the Conference of the Commonwealth Heads of Government had not been entrusted to the Board, the Board had spent a sum of Rs.10,934,625 in that connection. The loss incurred by the Board due to the failure to consider the lowest quotation received out of the bids received for the selection of a company for the organization and management of the Exhibition amounted to Rs.8,184,555.

4.7 Staff Administration

The following observations are made.

- (a) Two officers to posts of the Director General and the Publicity Officer and three officers had been appointed to the post of Management Assistant had been appointed, though they had not possess the qualifications specified in the respective Schemes of Recruitment.
- (b) Contrary to the Public Administration Circular No. 25/2014 of 12 November 2014, eight employees who had not completed 180 days of satisfactory services and 6 employees recruited for training had been confirmed.

- (c) In the confirmation of employees recruited on contract basis, 9 employees who had not fulfilled the educational qualifications according to the Scheme of Recruitment had been confirmed.

4.8 Resources of the Board given to other State Institutions

Five motor vehicles and 4 officers of the Board had been deployed in service in the Presidential Secretariat, the Private Secretary to the Minister in Charge of the subject, the Media Division of the Minister and the Line Ministry contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and a sum of Rs.1,311,777 had been spent by the Board as the maintenance expenses of the motor vehicles and salaries and allowances during the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Public Enterprises Circular No. PED/12 of 02 June 2003 stipulates that the financial statements should be presented to the Auditor General within 60 days after the close of the relevant year of accounts, the financial statements for the financial year 2015 had been presented only on 28 April 2016.

5.2 Action Plan

The date of commencement of each activity included in the plan, the targeted date of completion and the targeted physical quantity had not been specifically identified.

5.3 Internal Audit

The post of Chief Internal Auditor of the Internal Audit Unit had been vacant over a period of two years and only two Internal Audit Queries had been issued during the year under review due to lack of adequate staff. The attention of the Board had not been paid for strengthening the Internal Audit Unit.

5.4 Budgetary Control

Comparison of the budgeted expenditure for the year under review with the actual expenditure revealed that expenditure of Rs.112,830,000 exceeding the budgeted provisions had been incurred. Similarly, variances ranging from 32 per cent to 387 per cent were observed between the budgeted provisions made for the development activities, the regional development activities, the purchase of fixed assets and the revenue expenditure. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

5.5 Unresolved Audit Paragraphs

The audit paragraphs included in the previous Audit Reports for which adequate attention had not been paid appear below.

Year 2014

- (a) Even though a part of the premises of a building belonging to the Dehiwala Mount Lavinia Municipal Council in which the Board maintains one of its stores had been sub-leased, a sub-lease agreement had not been entered into in that connection.
- (b) Expenditure amounting to Rs.4,020,848 , contrary to the powers and functions specified in Section 12(1) of the Sri Lanka Export Development Act, No. 40 of 1979 , had been incurred in the year 2014.
- (c) The approval of the Minister of Finance, in terms of Section 12(q) of the Sri Lanka Export Development Act, No. 40 of 1979 had not been obtained for the investment of Rs.929,548,150 made by the Board in the shares of Private Companies from the year 1988.
- (d) Salaries amounting to Rs.226,530 obtained by placing counterfeit signatures for performing duties in the Security Service of the Board had not been recovered.
- (e) Five motor vehicles and 4 officers of the Board had been deployed in the service of the Line Ministry contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the Board had spent a sum of Rs.2,824,256 in the year 2014 as the maintenance expenditure of motor vehicles and salaries and allowances of the staff.

Year 2013

- (f) Lease rental of Rs.841,000 had been paid for the period from 01 August 2013 to 31 December 2013 without either extending the period of lease or entering into a new agreement.
- (g) A sum of Rs.1,009,740 shown as payable to the District Secretariat Colombo under the Jathika Saviya Programme had been credited to income without obtaining confirmation from that office and formal approval.
- (h) In the grant of motor cycle loans and distress loans, the limit of monthly recoveries had been considered as 50 per cent of the monthly salary contrary to Section 3.5 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

- (i) The arrears of rent and the electricity charges amounting to Rs.7,049,858 recoverable from 5 trade stalls of the Sri Lanka Trade Centre maintained by the Board in Chennai, India during the years 2004 to 2009 had not been recovered even by 15 August 2016.

Year 2012

- (j) The commencement of the activities of the private company established by investing a sum of Rs.1,000,000 for the leather goods industry project of the “Hambantota Bataatha” Industrial Programme had been abandoned. But action had not been taken action for the recovery of the money invested.

6. 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.

Areas of Systems and Controls

Observation

- | | |
|------------------------------|--|
| (a) Investments | Failure to obtain the appropriate approval and lack of follow-up. |
| (b) Loans Control | Failure to enter into agreements with the Export Companies and the failure to take action for the recovery of the loans and interest. |
| (c) Special Projects Control | Commencement of projects contrary to the objectives of the Board and abandoning without achieving the targeted objectives. Non-updating of Performance Reports. |
| (d) Budgetary Control | There are material differences between the budgeted revenue and expenditure and the actual revenue and expenditure the budget had not been made use of as an effective instrument of management control. |