Sri Lanka Export Development Board -2013

The audit of financial Statements of the Sri Lanka Export Development Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 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 for financial statements that are free form 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 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 the 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 the financial statements. Sub- sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of the 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 in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the 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 2013 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) Even though the comparative information should be presented in the financial statements in terms of Sri Lanka Accounting Standard 01, comparative figures were not presented in the cash flow statement.

(b) In accounting a sum of Rs.418,476,859 stated as increase of carrying value of the investment based on the retained profit amounting to Rs.1,439,656,910 of the private company incorporated by the Board in collaboration with a Development Bank, aimed at the construction of office building complex had been adjusted to the accumulated profit of the year under review as prior year adjustments instead of being restated retrospectively. In terms of Sri Lanka Accounting Standard 08.

(c) All motor Vehicles with zero values had been revalued as at 31 December 2013. In terms of Sri Lanka Accounting Standard 16, the rate of depreciation should be determined on the basis of useful Life period. But contrary to that two depreciation rates, that is 20 per cent on motor vehicles older than 10 years and 10 per cent on vehicles less than 10 years had been applied on the basis of useful life period prior to the revaluation.

(d) Assets purchased out of grants received from external parties by the Board had not been separately identified and action had not been taken to amortize those assets at a value equivalent to the provision for depreciation in terms of Sri Lanka Accounting Standard 20.

(e) Even though provisions should be made for impairment on the interest receivable from Loans granted to exporters in accordance with Sri Lanka Accounting Standard 36, those had not been bought to account in the financial statements.

(f) Although contingent liabilities had been stated in the financial statements under Note 2.18 on accounting policies, the contingent liabilities and contingent assets in respect of 06 Court cases filed against the Board and by the Board in the years 2012 and 2013 had not been disclosed in the financial statements in terms of Sri Lanka Accounting Standard 37.

(g) The allocation of Rs.122,822,417 made in the year 2012 in respect of diminution in the values of preference shares and ordinary shares had been shown as allocations in the year 2013 as well. Thus the impairment of investments relating to the year under review had not been reviewed in terms of Sri Lanka Accounting Standard 39.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Sponsorship and trade stall income of Rs.3,180,000 receivable as at 31 December 2013 had been omitted from the financial statements.

(b) As the service period of an officer had not been correctly calculated the gratuity expenditure of the year under review had been overstated by Rs.302,097.

(c) Services and supplies relating to the advances totaling Rs.5,324,516 paid in the year under review and the previous years had been completed but the expenditure of the year under review had been understated by a similar amount as that amount was still shown as advances.

(d) Action had not been taken to identify and settle the abnormal debit and credit balances totaling Rs.11,079,248 and Rs.622,595 respectively shown under assets and liabilities.

(e) The loss from sale of fixed assets amounting to Rs.14,952 had been understated and the sale of assets had been overstated by Rs.14,952 in the cash flow statement.

(f) Prior year adjustment of Rs.418,476,859 which did not relate to the cash and cash equivalents, the increase of value of an Associate Company amounting to Rs.47,862,116 and the accumulated profit adjustment of the Associate Company amounting to Rs.466,338,975 had been shown as an effect on to the cash movement in the cash flow statements.

(g) A sum of Rs.125,010 comprising the telephone expenses of Rs.43,090, entertainment expenses of Rs.2,020 medical assistance expenses of Rs.9,900 and legal expenses of Rs.70,000 had been brought to account as building rent and as such the building rent account had been overstated while each of the above accounts had been understated by similar amounts.

(h) Lease rent payable in respect of Provincial Office of Kurunegala for November and December 2013 amounting to Rs.201,600 had not been accounted as accrued expenses.

(i) The overstatement of revaluation profit stated in the previous year Auditor General's Report amounting to Rs.100,000 had not been adjusted in the financial statements of the year 2013 and as such the revaluation profit and the value of property, plant and equipment had been overstated by a similar amount.

2.2.3 Unreconciled Control Accounts

According to the financial statements presented, the balance receivable from exporters as at 31 December 2013 amounted to Rs.5,878,112 whereas according to the schedule that amounted to Rs.4,282,832 thus showing a difference of Rs.1,595,280

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items had not been made available.

	Item of Accounts	Value	Evidence not made available
		Rs.	
(a)	(i) Investments	88,410,377	Share Certificates
	(ii) Investments made in shares of CWG-Hambantota 2018 (Pvt) Ltd	8,000,000	Approval of the Cabinet of Ministers and the Minister of Finance.
(b)	Unsettled Advances	5,324,516	Registers of Advance Age Analysis.
(c)	Uva – Paranageama export processing village	10,403,683	Confirmation of Balances and Detailed Schedules

2.2.5 Transactions not Supported by Adequate Authority

The following observations are made.

(a) An agreement had been entered into with a State Bank by the Board on 01 August 2011 to obtain a building belonging to that Bank on lease basis to operate the Kandy Regional Office of the Board. According to the lease agreement the period of lease had expired on 31 July 2013. Lease rent of Rs.841,000 had been paid for the period from 01 August to 31 December 2013 without extending the lease period or without entering in to a new agreement even by 08 July 2014.

(b) A sum of Rs.1,009,740 shown as payable to the District Secretariat, Colombo under the Jathika Saviya Program had been credited to income without obtaining conformation from that District Secretariat or without proper approval.

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

The following non-compliances were observed.

Reference to Laws, Rules Regulation and Management Decisions	Non-Compliance
(a) Section 2(1) of the Export Development Act, No.40 of 1979	Even though 21 Years from 1992 to 2013 had elapsed, the National Development Council had not been set up to implement the export development programs and policies.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
Section 3.5 of Chapter XXIV	Even though the total monthly deduction limit should not exceed 40 per cent of the monthly salary, in granting motor cycle loans and distress loans, the total monthly deduction limit had been considered as 50 per cent.
(C) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulations 104(1), 104(3), 104(4) and 110	The Board of Inquiry had not completed the inquiry on accidents to motor vehicles, identified those responsible and submitted the full report including the proposed disciplinary action to the Chief Accounting Officer within three months from the date of accident as specified in the Financial Regulation. A Register of Losses containing the particulars of the accounts had also not been maintained.
(ii) Financial Regulation 165	Income had been collected without the acceptance of cash, cheques and other receipts, received in that connection being authenticated by an authorised officer.
(iii) Financial Regulation 387	As the Paying officer had not ensured that the bank balance was adequate to meet all his payments, the bank overdraft as at 31 of the year under review amounted to Rs.17,148,432.
(iv) Financial Regulation 388	A record of all cheques sent by post had not been properly prepared in terms of Financial Regulation.
(v) Financial Regulation 396 (d)	If the cheques remain uncashed for more than 6 months from the date of issue or from the last date of revalidation whichever is longer the payee should be informed by letter and if no reply to the letter has been received that cheque should be

		cancelled. Nevertheless, action had not been taken in terms of Financial Regulation in respect of 45 unpresented cheques valued at Rs.1,051,078 issued during the period from the year 2010 to 30 June 2013.
	(vi) Financial Regulations 446 (2)	When separate bank current accounts are operated to record income and expenditure, the main summary cash book should be maintained to reconcile balances and to compute the cash balance. No such a cash book was maintained.
	(vii) Financial Regulations 1645 and 1646	Motor Vehicles Log Books, Daily Running Charts and Monthly Performance Summaries in respect of 28 motor vehicles belonging to the Board had not been presented to audit before the Fifteenth day of the month following.
	(viii) Financial Regulation 1647 (e)	A Register of Motor Vehicles had not been maintained.
(d)	Paragraph 03 of the Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained.
(e)	Public Finance Circular No.1A1/2002/02 dated 28 November 2002	Even though a Register of Computers, Computer Accessories and Software should be maintained, such register for computers, accessories and software valued Rs.31,688,112 had not been maintained.
(f)	Public Finance Circular No 441 dated 09 December 2009 and Financial Regulations 756 and 757	Action had not been taken to carry out Periodic Boards of Survey in terms of Financial Regulation and sent the report to the Auditor General.
(g)	National Budget Circular No.150 of 07 December 2010	Even though motor vehicles required by the Board should be purchased on finance Leasing method, contrary to that, 4 motor vehicles had been taken on Lease rent basis for a period of 5 years and lease rent amounting to Rs.10,051,179 had been paid by 31 December 2013.
(h)	Section 02 of the Department of Public Enterprises Circular No.95 of 14 June 1994.	Monthly transport allowance of Rs.5,500 per Deputy Director per month and a daily allowance subjected to a maximum of Rs.164 had been paid to other employees by the Board, contrary to circular instructions Accordingly, the total transport allowance paid during the year under review contrary to circular instructions amounted to Rs.5,004,963.

(i) Public Enterprises Circular No.PED/12 dated 02 June 2003 on Good Governance

(i) Paragraph 5.2.3	In the presentation of budget, the budgeted income and expenditure statement for the Year ended 31 December 2013, cash flow statement and a budgeted balance sheet as at that date had not been presented for the year under review.
(ii) Paragraph 8.3.9	Five motor vehicles and 5 officers of the Board had been released to the service of the Ministry. Vehicle maintenance expenditure and staff salaries and allowances amounting to Rs.3,204,138 and Rs.899,195 totalling Rs.4.103,333 had been incurred in the year 2013 from the Board's funds.

3. Financial Review

3.1 Financial Results

According to the finical statements presented, the operations of the Board for the year ended 31 December 2013 had resulted in a surplus of Rs.100,514,844 as against the deficit of Rs.60,305,699 for the preceding year. The financial results of the year under review had indicated a favorable increase of Rs.160,820,543 as compared with that of the previous year. Increase of total income by Rs.69,380,831 and the decrease of total expenditure by Rs.91,439,712 had been the main reasons for this improvement.

4. Operating Review

4.1 Performance

(a) Export promotion and development programs.

Division	**Physical performance**					**Financial Performance**		
	Number of targeted Programs	**Number of cancelled or suspended programs**	**Number of programs adequately not completed**	**Number of programs completed**	**Percentage of performance**	**Budgetary provision**	**Actual financial utilization**	**Percentage of utilization**
						Rs. millions	**Rs. millions**	
Industrial Products	43	05	08	30	70	61.23	23.51	38
Agricultural and Fisheries	39	04	14	21	54	53.78	31.86	59

Products Export Services	20	02	07	11	55	29.33	3.72	13
Marketing Development	42	01	07	34	81	64.98	40.48	62
Regional Development	30	02	14	14	47	71.06	28.46	40
Other Export Services	27	-	04	23	85	29.28	10.85	37
Special Projects	11	04	06	01	09	79.86	3.80	4.8
Others	02	-	02	-	00	115	Not Presented	0
Total	214	18	62	134	62	505.02	142.68	28

The following observations are made

(i) According to the Action Plan of the Board, number of programs targeted for implementation amounted to 214 out of which only 134 programs had been completed. Accordingly the physical progress of performance had been 62 per cent. A provision of Rs.505.02 million had been made for this program and only a sum of Rs.142.68 million or 28 per cent had been utilized.

(ii) According to the Performance Report presented, the reasons for non-implementation of targeted programs had not been identified and several programs could not be implemented as sufficient financial provisions had not been made. As the reasons for non-implementation of programs had not been identified, the follow up action to ensure whether those programs would be implemented or not had not been taken.

(b) Foreign Trade Exhibitions

Even though 82 exporters had been participated in 4 Foreign Trade Exhibitions during the period from 2008 -2013 under the export promotion program and spent a sum of Rs.65.38 million thereon only 25 exporters of them had contributed for export promotion. Accordingly, participation by exporters in the Foreign Trade Exhibitions had not been done effectively for the improvement of the export income.

(c) Progress of conducting Courses

The following observations are made

(i) The number of persons who followed the Operational Aspects of International Trade Course had been gradually decreased during the period from 2009 to 2011 while it had increased in the year 2012. However a decline of 32 per cent was reported in the year 2012 as compared with the year 2009. Number of course conducted in the year 2009 was 04 whereas it had dropped to one course by the year 2013.

(ii) Even though the training program income received for conducting training programs to staff engaged in the garment sector amounted to Rs.207,500 a sum of Rs.1.04 million had been spent thereon.

4.2 Management Inefficiencies

The following observations are made.

(a) It had not been ensured by pre-market observations whether there was a possibility of achieving the targets and objectives of the Sri Lanka Expo International Trade Exhibition held by spending a sum of Rs.156.6 million in the year 2012. Even after the exhibition an evaluation or a review had not been carried out in the year 2013 to ensure whether the objectives and targets for holding exhibition could have been achieved.

(b) According to the agreement shoots into with a supplier on 18 November 2009, to supply 1.2 million pineapple shoots valued at Rs.9 million to the Ampara Agriculture Export Products Zone, 50 per cent advance had been given. As only 86,250 pineapple shoots had been supplied by 25 February 2010, the project activities had failed. Accordingly, the objective of the project could not be achieved and a sum of Rs.3,853,350 out of advances had not been recovered even by 31 December 2013. The follow up action on its present position had also not been taken.

(c) Out of the 166 export companies to which loans had been granted, legal action had been taken against 23 companies only. After the legal action only Rs.2,801,711 out of the outstanding loan balance of Rs.6,996,307 had been recovered during the period from 01 January 2006 to 31 December 2013. As the follow up action had not been taken to recover the loans by taking legal action after 2007, sixteen export companies out of 23 had defaulted the repayment of loan balance. Legal action had not been taken against 130 export companies which had defaulted the repayment of loans totaling Rs.32,966,208 even by 30 June 2014.

(d) A private company had been incorporated on 18 November 1993 by the Board Jointly with a Development Bank with the objective of constructing the office building complex. The Board had invested a sum of Rs.161,088,760 in shares of the company representing 41.39 per cent of its total equity. Even though sufficient profit had been earned by that company during the period 1996 – 2006 to declare dividends the Board had not received any return on this investment.

(e) Dividends on investments of Rs.105,058,084 made in preference shares in 30 companies for the period 1997- 2013 and on investment of Rs.43,494,334 made in ordinary shares in 31 companies for the period 2001 – 2013 had not been received by the Board.

(f) Outstanding rent and electricity charges totaling Rs.7,049,858 due from 5 trade stalls in the Sri Lanka Trade Centre operated by the Board during the period from 2004 to 2009 in Chennai, India had not been recovered even by 30 June 2014.

(g) Loans had been granted to 331 export companies during the period from 1983 to 1999 under a loan scheme connected with the objective of generating high exports income through strengthening the financial viability of export companies. Out of loans totaling Rs.59,659,978 granted to 166 export companies a sum of Rs.46,413,543 had not been recovered.

4.3 Transactions of Contentions Nature

The following observations are made.

(a) A sum of Rs.8 million had been invested in the purchase of shares in a private company incorporated in the year 2011 in order to organize the activities for securing the sponsorship of the Commonwealth Sports Festival, 2018 and the development and promotion of sports activities deviating from the functions of the Board stated in Section 12 of the Sri Lanka Export Development Act, No.40 of 1979 and without obtaining the approval of the Minister of Finance in terms of section 8.2.3 of the Public Enterprises Circular No PED/12 for 02 June 2003 on Good Governance and to develop and promote sport activities. However, the operation of the company had ceased as at 31 December 2013 as the sponsorship of Commonwealth Sports Festival could not be secured.

(b) Despite the availability of training facilities with the Board disregarding that a sum of Rs.602,274 had been spent during the period from 2011 to 2013 to conduct a course with about 45 participants in a private institution.

4.4 Staff Administration

Approved and actual cadre position as at 31 December 2013 had been follows.

Staff Category	Approved Cadre	Actual Cadre	Number of Vacancies
Tertiary	65	54	11
Secondary	128	85	43
Primary	75	61	14
Contract	-	13	-
Total	268	213	68

The following observations are made in this connection.

(a) According to paragraph 11 of the Letter No. DMS/E4/30/4/200/2 dated 13 August 2010 of the Director General of the Department of Management Service addressed to the Secretary to the Ministry of Industries and Commerce the approval of the Department of Management Services should be obtained to fill the vacant posts. However action had not been taken accordingly.

(b) Recruitments and promotions for the posts of Assistant Director (General), Assistant Director (Human Resources Management), Assistant Director (Administration) and Assistant Director (Finance) had been made without an approved Scheme of Recruitment as prescribed in Section 6.1.5 of Chapter II of the Establishments Code.

(c) Even though the Scheme of Recruitment required that the qualifications and the experience relating to the posts should be taken into account, an officer who had not fulfilled those qualifications had been recruited to the posts of Assistant Director (Human Resources)

(d) Thirteen officer had been recruited on contract basis without a formal approval in terms of Management Services Circular No.30 of 22 September 2006 and a sum of Rs.5,420,465 had been paid as salaries and allowances in the year under review.

5. Accountability and Good Governance

5.1 Internal Audit

The Internal Audit Programmes and Internal Audit Plan had not been prepared in accordance with Sections 07 and 09 of the Management Audit Circular No. DMA/2009(1) dated 09 June 2009 and the internal audit functions had been at an unsatisfactory level. However 04 internal audit queries had been issued during the year under review but attention of the Board had not been paid to rectify the deficiencies reported in those audit queries.

5.2 Budgetary Control

Significant variances were observed between the budgeted expenditure and the actual expenditure thus indicating that the budget had not made use of an effective instrument of management control

5:3 Unresolved Audit Paragraphs

Attention had not been paid in respect of the following audit paragraphs included in the previous year Audit Report.

Reference to Audit Paragraph of the year 2012	Summary of the Audit Paragraphs
2.2.6 Transactions without adequate Authority	A sum of Rs.1,557,337 had been paid from the Board's fund as monthly allowances, fuel allowances, and telephone charges up to 31 December 2012 to an Executive Director appointed contrary to the provisions the Export Development Act, No.40 of 1979.
4.2 Management Inefficiencies (e)	Even though the responsibility to recover the loans of Rs.5 million given to the farmers of Uva Parangama for the construction of 100 green houses under the conditions of agreement of the Uva Paranagama Green House Project and pay it to the Treasury had been devolved in the Board, it had not been so done.

4.3 Identified Losses	Commencement of the operations of private company incorporated with an investment of Rs.1,000,000 for the Leather Products Industry Project in the Bataatha Industrial Programme in Hambantota had been abandoned and as such action had not been taken by the Board to recover 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.

(a) Budget
(b) Accounting
(c) Investments
(d) Recovery of Loans
(e) Assets Management
(f) Trade Exhibitions