

Sri Lanka Export Development Board - 2017

The audit of the Financial statements of Sri Lanka Export Development Board for the year ended 31 December 2017 comprising the Statement of financial position as at 31 December 2017 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 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act, was issued to the Chairman of the Board on 21 September , 2018.

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 the 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 judgements, including the assessment of the 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 financial statements. Sub sections (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.

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 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 2017 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

2.1 Sri Lanka Accounting Standards

The following observation is made.

Sri Lanka Accounting Standard -24

All the transactions carried out with associated companies should be disclosed in detail in terms of Sections 25 and 26 of the Standard. Nevertheless, the sum of Rs. 617,818 paid to Development Holdings Private Limited, an associated company thereof, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The lease rent and parking fee for vehicles in regard to the year under review amounting Rs. 5,937,500 and Rs. 120,108 respectively payable in accordance with the lease agreement entered into between the Board and Development Holdings Private Limited, had not been brought to accounts.
- (b) The interest amount of Rs. 2,793,599 payable on the loan amounting to Rs. 2,493,310 granted to the Tissamaharama Export Production Village Co. Ltd, had not been brought to accounts.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the financial statements, the value of shares of a private company that the Board had invested in, amounted to Rs. 3,000,000, but that amount had been show as Rs. 2,948,731 in the Letter, No. EDB/RDD/R1/MIS/022 of the Chairman, dated 31 October 2017 addressing the Secretary to the Ministry of Finance and Mass Media to request for write off.

- (b) Although a sum of Rs. 598,457 had been shown in the ledger as the capital invested by the Board in a private company, that value had been shown as Rs. 3,598,457 in the register of investment deductions , thus observing a difference of Rs. 3,000,000.

2.2.4 Lack of Evidence for Audit

Lease agreements and assessment reports to the value of Rs. 877,303 pertaining to the stores in Ratmalana, had not been made available to Audit.

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

The following instances of non-compliances were observed.

| Reference to Laws, Rules, & Regulations | Non-compliances |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ----- | ----- |
| (a) Public Enterprises Circulars. | |
| (i) Section 4.2.6 of the Circular, No. PED/12, dated 02 June 2003. | The quarterly performance reports should be furnished to the Line Ministry and the Department of Public Enterprises within 30 days from the end of a quarter, but it had not been so done. |
| (ii) Section 5.2.5 | A copy of the budget approved by the Board of Directors should be furnished to the Auditor General prior to 15 days of the commencement of the ensuing year. Nevertheless, it had not been so done. |
| (iii) Section 4.3 of the Circular, No. PED 05/2016, dated 16 December 2016. | Prior approval of the Treasury should have been obtained for paying bonuses by deviating from the generally accepted procedure. Nevertheless, such an approval had not been obtained in regard to the bonus of Rs. 2,560,467 paid in the year under review for the Board in that manner. |

2.4 Transactions Without Adequate Authority

The Board had entered into a lease agreement with a private company relating to the period from 15 March 2016 up to 14 March 2017 for the five storied building on Nawam Mawatha in which their Head Office had been maintained. Lease rent totalling Rs. 37,150,685 had been paid with respect to the period from 15 March 2017 up to 26 October 2017 sans an agreement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the operations of the Board for the year ended 31 December 2017 had been a deficit of Rs. 20,282,474 as against the surplus of Rs. 45,773,906 in the preceding year, thus observing a deterioration of Rs. 66,056,380 in the financial result of the year under review as compared with that of the preceding year. The reasons such as, the decrease in Government grants by Rs. 11,806,660, and the increase in administrative expenses & export development expenses by sums of Rs. 34,209,711 and Rs. 19,343,743 respectively, had mainly attributed to the said deterioration of the financial result.

The analysis on the financial results of the year under review and 04 preceding years indicated a continuous net profit from the year 2013 up to the year 2016. Having fluctuated annually, the financial result had become a net loss by the year under review. However, when the employee remuneration, Government taxes, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the year 2013 amounting to Rs. 287,157,318 had deteriorated in the ensuing years thus reaching the value of Rs. 197,541,947 by the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made with respect to planning and implementation in view of achieving the objectives of the Board.

- (a) As an Action Plan indicating timeframes for commencement and completion of each activity had not been made available to Audit along with a Performance Report showing physical quantities, the progress of the Board could not be examined in a comparable manner
- (b) The Human Resource Development Plan inclusive of information relating to approved and actual cadre in accordance with Public Finance Circular, No. 01/2014, dated 17 February 2014, together with organizational structure of the Board updated to the relevant year, had not been included in the Action Plan of the Board.
- (c) As 12 programmes included in the Action Plan of the year under review had not either been executed or completed, a sum of Rs. 12,460,000 had remained unutilized.
- (d) Even though a sum of Rs. 24,400,000 had been provisioned in regard of 10 activities stated in the budget, a sum amounting to Rs. 13,900,000 had been spent in excess thereof.

- (e) A sum of Rs. 900,000 had been spent in the year under review on the activities of Participation at ICA Congress – 2017, and Co-organize Jewels Talk Conference which had not been included in the Action Plan.
- (f) Eleven programmes not implemented despite being planned in the year 2016 for which a sum of Rs. 8,900,000 had been provisioned, had not been implemented in the year under review. It had been stated in the Performance Report that 09 programmes which had not been implemented albeit planned in the year under review and a sum of Rs. 7,300,000 had been provisioned, would be brought forward to the next year. However, those programmes had not been included in the Action Plan of the year 2018.
- (g) As the financial sponsorship provided by the Board for the exporters had not been mentioned in the notice published by requesting applications for taking part in the *Seafood Expo Global* trade exhibition held in Belgium from 25 – 27 April 2017 in view of identifying the international buyers related to production of fish, interest of the exporters to apply for the exhibition had decreased. Furthermore, the Board should have provided financial sponsorship for a company only in 03 instances with respect to one trade exhibition. But, 03 export companies that participated in the said trade exhibition in the year under review, had been provided with financial sponsorship in 05 prior instances, whilst 02 other export companies had been provided with financial sponsorship in 04 instances. One company which had taken part in that exhibition and obtained financial sponsorship, had not made any export after the year 2015, and no exports had been done even after the trade exhibition as well.
- (h) When exporters had been selected for the trade exhibition, *India Rubber Expo*, held in India from 19 January to 21 January, 2017 in order to promote the products based on Sri Lankan rubber in the international market, financial assistance had been granted for promoting exports in a manner that higher marks had been given for companies earning high export income with no financial difficulties whereas lower marks had been given for companies earning low export income. Thus, encouraging and uplifting the exporters with financial difficulties had not been done properly. Three of the 06 exporters who had taken part in the exhibition, belonged to the same group, and the Board had provided financial sponsorship worth Rs. 527,100 for that group, thus depriving the other exporters of their opportunities.

4.2 Management Activities

The following observations are made.

- (a) Sums of Rs. 58,312,484, and Rs. 105,066,208 had been shown in the financial statements of the year under review as the investments made in average shares of 35 private companies, and preference shares of 29 companies respectively. Three companies in which a sum totalling Rs. 17,315,000 had been invested out of those investments, had been liquidated in the years 2002, 2007, and 2009. It was informed by the liquidator that there had been no assets to pay back the monies invested in the shares. Moreover, a sum of Rs. 46,323,648 invested in 25 companies which had been written off from the register of registered companies, could not be recovered. The Board had not taken measures to avoid likely capital losses by reviewing the investments in a timely manner.

- (b) Following are the matters observed on the agrarian project launched in partnership with a private company at an area of 18 acres in Hambanthota, Weerawila for cultivating fruits and vegetables by utilizing the sum of Rs. 500 million granted in the year 2009 in order to implement 50 agricultural projects in the agricultural exports zones targeting export.
- (i) The Board had given a sum of Rs. 2,493,310 to the company during the period, from 01 January 1998 up to 24 December 2002. Nevertheless, that sum and the interest thereon had not been recovered even up to July 2018, and those amounts had not been shown in the financial statements of the Board and the company as being receivable / payable.
 - (ii) According to the Agreement entered into between the two parties on 27 November 2009, the estimated value of the project amounted to Rs. 8,000,000, and the project should have been completed within a period of 10 years under 03 stages. However, the sum of Rs. 3,857,360 provisioned for the first stage, had been released to the Divisional Secretariat of Thissamaharama on 26 November 2009, but a sum of Rs. 2,043,890 therefrom had been kept idle by the company without being spent for a period of 09 months.
 - (iii) It was the main objective of this project to improve the minor export crops such as, cinnamon, ginger, and vanilla under higher standards in the agricultural export zone thereby paving way for the export trade. Contrary to the objectives however, 2000 plants of mango had been purchased spending a sum of Rs. 1,400,000, and only 500 plants therefrom had been planted in 15 acres whilst the rest of the 1,500 plants had been distributed among the farmers. Moreover, 1000 plants of banana purchased at a sum of Rs. 52,000 were observed to have been perished due to drought.
 - (iv) Of the total income of Rs. 7,793,864 earned during from the year 2011 up to the year 2017 from this project launched as an export oriented agricultural project, the export income amounted to Rs. 2,338,160 only. Furthermore, the objectives of the project could not be achieved due to reasons such as, no exports had been made during the years 2016 and 2017, and failure of the Board in assisting the beneficiaries who had obtained mango plants, to find local and foreign market.
 - (v) A sum of Rs. 24,120,000 had been approved by the Board to construct a processing and packaging center with the objective of collecting agricultural products at provincial level in the said agricultural export zone and improving the export quality thereof, and purchase the furniture. However, constructions had been done by spending a sum of Rs. 18,590,296 by 28 July 2015 though, no processing or packaging activity whatsoever had been carried out at that center even by the year 2018.
- (c) The following observations are made on the project assisting the export sales promotions leading from the year 2016 up to the year 2020.

- (i) Evaluation of the applications relating to the project should have been done by an evaluation committee comprising 05 members, but evaluations had been done by members less than the approved number of members in 05 instances.
- (ii) According to the Guideline, the proposed development programme should have been approved by the Board prior to the applicants reimbursing the expenses relating to the programme. Nevertheless, it had not been done so.
- (iii) The Board had not entered into agreements relating to the conditions to be fulfilled by the applicants, or the progress expected to be achieved once expenses of the exporters in regard to the programmes had been reimbursed by the Board. The progress had also not been evaluated properly.

4.3 Operating Activities

A sum totalling Rs. 2,676,342 had been overcharged in excess of the sum that should have been recovered from the exporters in regard to 03 exhibitions held in the year under review. No decision had been taken as to how to act on those monies.

4.4 Resources of the Board Released to Other Government Institutions

The following observations are made.

- a) Contrary to Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, an Assistant Director and a Deputy Director of the Board had been released to the Line Ministry on 13 March 2017 and 30 August 2017 respectively. A sum of Rs. 817,898 had been incurred by the Board as their salaries and allowances up to 31 December 2017.
- b) A Double Cab belonging to the Board had been released to the Line Ministry for the period from 30 October 2015 to 22 December 2017. A sum of Rs. 128,515 had been spent by the Board on repairs and maintenance during that period.

4.5 Staff Administration

The approved cadre of the Board had been 282 as at 31 December 2017, but the actual cadre had been 249 thus indicating 36 vacancies and 03 excesses. As for those vacancies, action had not been taken to identify and fill the posts pivotal in achieving the key objectives of the Board.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Having become aware of the 2030 Agenda for Sustainable Development adopted by the United Nations, the goals that the Board had identified to be achieved under their scope included : delegation of authority, achievement of gender equality, and encouraging the sustainable industrialization and innovation. Action had not been taken to identify the targets

relating to development of exports and promoting foreign trade included in the other object under the scope being strengthening global relationships for sustainable financial development (17th Goal). As such, action had not been taken to identify the targets relating thereto, statistical data, milestones in reaching the targets, and the indicators to measure the progress. Hence, the required financial provision had not been stated in the annual budget by including the said activities in the Annual Plan of the Board.

6. Accountability and Good Governance

6.1 Internal Audit

There had been 5 posts approved for the Internal Audit Unit, and 15 reports had been issued in the year under review though, 02 of them had not been replied by the management. Furthermore, an officer recruited to the post of Export Promotion Officer, had been attached to the post of Internal Audit Officer with effect from 02 January 2017.

6.2 Procurements and Contract Administration

6.2.1 Procurements

The following observations are made.

- a) In terms of Guideline 4.2.19 (b) of the Procurement Guidelines, the procurement activities expected for a period of at least 03 years, should be listed in the main Procurement Plan. However, the Board had prepared the main Procurement Plan only for the year 2017.
- b) A procurement time schedule describing the steps from the commencement to the completion of each procurement, had not been prepared by the Board in terms of Guideline 4.2.2 (b) of the Procurement Guidelines.
- c) As for the 07 institutions that had submitted bids for building stalls of the Seafood Expo Global trade exhibition, the lowest bid had been turned down despite the possibility to iron out weaknesses of creative decorations in the stall through constructive dialogue. Thus, the second lowest bidder whose bid had been higher than the first lowest bid by a sum of 10,516 Euros, had been selected.

6.3 Budgetary Control

When the revised budget of the year under review had been compared with the actual expenditure, variances ranging from 47 per cent to 3400 per cent had been observed relating to 03 items. As such, it was observed that the budget had not been made use of as an effective instrument of management control.

6.4 Unresolved Audit Paragraphs

The audit paragraphs that adequate attention had not been brought on despite being pointed out in the previous audit reports, are as follows.

| Year | Paragraph No. | Audit Paragraph |
|-------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ----- | ----- | ----- |
| 2016 | 2.4 (b) | Even though all air travel should be done by using the economy class, business class air tickets had been used by the Chairman and Executive Director of the Board spending a sum of Rs. 1,886,350. |
| | 2.4 (g) | Even though a sum of Rs. 478, 002 had been spent on awarding gold coins to the staff who had completed 25 years of service in the Board during the period of from the year 2014 to the year 2016 contrary to Public Finance Circular, No. PF/PE 5, dated 11 January 2000, and Public Enterprises Circular, No. 95, dated 14 June 1994, approval of the Treasury had not been obtained for the utilization of Treasury allocations for benefits granted to its staff. |
| | 4.6 (c) (ii) | Five external candidates and four internal candidates had been recruited on the results of examination for the post of Assistant Director conducted on 21 August 2016 by the Institute of Development Administration of Sri Lanka. The exam for English language had been held again according to a request of internal candidates mentioning that time allocation for the subject of English out of 3 subjects of this exam had not been enough. |
| | 2.4 (a) | 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. 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. |
| | 4.2 (a) | When advertising on staff recruitments and programs, two advertisements had been published for the same matter by not including necessary information and not acting on timely basis, thus the expense amounting to Rs. 698,140 spent the on first advertisement was a fruitless expenditure. |

- 4.3 A sum of Rs. 26,373,010 had been paid to a private institution for establishing a center to provide training for cinnamon producers. As the said center had not contributed to increase the quantity of export even up to 28 June 2017, the expenditure incurred on that training center had become non-productive.
- 2015 2.3 (a) Of the loan amounting to Rs. 5,000,000 granted from Rural Economic Resuscitation Fund, a sum of Rs. 2,891,748 had not been settled.
- 2.4 (a) From the year 2010 up to the year 2015, the officer appointed as the Executive Director of the Board contrary to Section 23 (1) of the Sri Lanka Export Development Board Act, No. 40 of 1979, had been paid a sum of Rs. 4,076,773 as salaries and allowances, a sum of Rs. 6,270,670 as the rental of the motor vehicle provided for duty and private travel, and a sum of Rs.2,122,770 as allowances and travelling expenses for foreign travel totalling Rs.12,470,213 without formal authority.
- 2.5 (a) In terms of Section 2(1) of the Sri Lanka Export Development Board Act, No. 40 of 1979, there shall be an Export Development Council of Ministers consisting of the President, who shall be the Chairman of the Council; and the Ministers in charge of the subjects of Trade, Shipping, Industries, Agriculture, Plantation Industries, Textile Industries, Fisheries, Finance, Foreign Affairs, Planning and Rural Industries. An Export Development Fund should be established to settle any expense incurred by the Board in the execution of authority, duties and functions thereof in terms of Sections 13 (1), (2) of the Act.
The Export Development Council for the Implementation of Export Development Programmes and Policies had not met during the period of 23 years from the Year 1992 up to the year 2015. The Export Development Fund had not been established as well.
- 2.5 (i) (i) Contrary to Public Finance Circular, No. PF/PE 5, dated 11 January 2000, and Public Enterprises Circular, No. 95, dated 14 June 1994, sums of Rs. 2,182,894, Rs. 18,284,887, and Rs. 12,458,798 had been spent during the 04 preceding years on professional allowance, special cost of living allowance, and transport facilities respectively.
- 4.2 (b) (iv) Despite a sum of Rs. 5,040,000 allocated for the Expo Sri Lanka Day in accordance with the Cabinet Memorandum, a sum of Rs. 1,079,688 had been spent by the Chairman and Additional Director General of the Board for their participation therein.
- 4.2 (b) (vi) Contrary to Section 04 (d) of the Circular, No. MF01/2015/01 of the Ministry of Finance, dated 15 May 2015, a sum of Rs. 3,770,640 had been paid to the officers appointed in the Expo exhibition as allowances for foreign travel.

- 4.2 (d) Contrary to Section 25 of the Finance Act, No. 38 of 1971, and Public Enterprises Circular, No. 95, dated 14 June 1994, Government grants amounting to Rs. 2,567,531 had been spent as at 31 December 2015 to establish an Employee Loan Fund and credit a monthly interest of 7.2 per cent thereto without approval.
- 4.6 Even though losses amounting to Rs. 1,918,314 had been pointed out in the audit report of the year 2015, no action whatsoever had been taken in that connection.
- 2014 4.5 (c) Contrary to authorities and functions of Section 12 (1) of the Sri Lanka Export Development Act No.40 of 1979, expenses amounting to Rs. 2,520,848 had been incurred in the year 2014.
- 2.5 (a) (ii) Approval of the Minister of Finance had not been obtained in terms of **Section 12 (g)** of the Sri Lanka Export Development Act No.40 of 1979 for the investments of Rs. 929,548,150 made by the Board in private companies from the year 1988.
- 4.9 Contrary to Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, five vehicles and 04 officers of the Board had been attached to the Line Ministry, and a sum totalling Rs. 2,824,256 had been spent in the year 2014 on maintenance of vehicles, and salaries & allowances of the staff.
- 2013 2.2.5 (b) A sum of Rs. 1,009,740 shown as being payable to the District Secretariat, Colombo under the *Jathika Saviya Programme*, had been credited to the revenue without being verified through the Secretariat and proper approval.
- 4.2 (f) Of the outstanding lease rents and electricity charges totalling Rs. 7,049,858 receivable from 05 stalls at the Sri Lanka Trade Center maintained by the Board in Chennai, India during the period 2004 – 2009, a sum of Rs. 3,084,693 had not been recovered even up to 15 September 2018.

7. 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.

| Area of Systems and Controls | Observation |
|------------------------------|------------------------------------------------------------------------------------------------|
| a) Financial Control | (i.) Failure to obtain approval properly on the investment of funds and take follow-up action. |

(ii.) Failure to take action for the recovery of loan and interest in terms of the Agreements entered into with export companies.

- b) Administration of Special Projects Abandonment of projects after being commenced by the Board without achieving the targets.
- c) Staff Administration Failure to conduct Efficiency Bar Examinations within a period of 03 years from the date of recruitment in terms of the Scheme of Recruitment. Only one subject had been included into the examination instead of the specified set of subjects.