

Sri Lanka Export Development Board – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

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

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| (a) According to the General Matters Notes No.2.3.3 of the financial statements of the Board, computers and equipment should be depreciated by 25 per cent. However, it had been depreciated by 20 per cent in the year under review and as such, depreciation for computers and equipment had been understated in accounts by Rs.126,485. | When calculating depreciation this error was occurred. The error will be corrected in 2019 financial statements. | The financial statements should be prepared in accordance with Accounting Principles. |
| (b) According to the General Matters Notes No.2.3.3 of the financial statements of the Board, depreciation for motor vehicles which were used over a period of 10 years should be made by 20 per cent. However, Motor vehicles revalued at Rs.24,200,000 as at 01 January 2013 and used for 10 years had been depreciated by 10 per cent, thus understating the depreciation by Rs.2,420,000. | When calculating depreciation this error occurred. The error will be corrected in 2019 financial statements. | The financial statements should be prepared in accordance with Accounting Principles. |

1.5.3 Accounting Policies

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| (a) A sum of Rs.2,323,225 recoverable to the Board from a project which had been completed by 31 December 2018 had been brought to account as advances instead of being accounted as debtors. | When the project started money was given as an advance. Therefore it was Accounted as an advance. Relevant institution have made installments from time to time and on last payment on 31 December 2018. Installments were collected by the law section. Receivable balance will be transferred to Debtors Account in year 2019. | Receivables to the board should not be shown as advance it should be shown as Debtors. |
| (b) The expenditure on printing of official badges and purchase of toners totalling Rs.158,853 made relating to preceding years, had been brought to account as expenditure of the year under review. | An accounting error. That does not affect to the Financial Result. | Expenditures should not be accounted as advance it should be accounted as expenditure for that relevant year. |
| (c) Motor vehicles revalued at Rs.12,900,000 in the year 2012 but fully depreciated by now had been depreciated by Rs.2,010,000 in the year under review. | It will be corrected in 2019 Accounts. | When calculating depreciation does not calculate the fully Depreciated Assets. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| (a) The balance receivable amounting to Rs.104,676,878 brought forward from the year 2013 in the Value Added Tax Account, had not been settled. | Out of this amount Rs.28,659,649 is stated as overpayments in the assessments issued by the Department of Inland Revenue from 2004 to 2006. EDB has continuously written to Departments of Inland Revenue and also officers of Finance Division has visited Department of Inland Revenue to get a refund or a confirmation of this amount, however failed to obtain. | Action must be taken to settle immediately. |
| (b) An amount of Rs.10,403,683 receivable from the Uva Provincial Agro Export Zone brought forward from the year 2009, had not been recovered. | Action is being taken to recover the balances. | Action should be taken to recover. |
| (c) Twelve other debtors totalling Rs.4,441,903 from the year 1999 to the year 2017 had not been recovered even by the end of the year under review. | Action is being taken to recover the balances. | Action should be taken to recover. |

1.6.2 Payables

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| The annual rent for the DHPL building in which the office of the Board is being functioned, amounts to Rs.60,750,000. However, the building rent payable at the end of the year under review amounted to Rs.30,375,000 due to understatement of Rs.12,750,000 in the preparation of the annual budget and allocation of less provisions from the Treasury in the preceding year as well. | The annual budget had been prepared up to year 2018 based on the treasury allocation. Amount that allocated for the building rental from the Fund of Treasury is Rs.46.25 million. The exceeding money should have to be settled from the dividends and other incomes. The reason for the provision relevant to the building rental at the end of the year 2018 is receiving lack of allocations for the year 2017 from the Treasury Fund. We have been informed that the Treasury has proved the provision money by a letter dated as 14 th of May 2019. | When preparing the budget certain building rental should have to be included in to the estimate and if about the allocation for the building rentals done by the Treasury is insufficient we should have to look for a building suitable for the supply. |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Non-compliance Laws, Rules Regulations etc. | Comments of the Management | Recommendation | |
|---|--|--|--|
| (a) Financial Regulation 396 | Instead of taking action in terms of Financial Regulations relating to dishonoured cheques issued to creditors as at 31 December 2018 valued at Rs.586,047 expired for over a period of 06 months, it had been shown in the financial statements as cheques not presented for payment. | According to the policies of the board, unrepresented cheques shows under unrepresented cheques account. And after three years the unclaimed cheques will be transferred to the sundry income account. | Should comply with the Financial regulation. |

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| (b) Section 4.2.6 of Public Enterprises Circular No. PED 12 of 02 June 2003 | Even though quarterly performance reports should be submitted to the line Ministry and the Department of Public Enterprises within 30 days after the closure of a quarter, action had not been taken accordingly in the year under review. | Quarterly performance reports were submitted to the Line Ministry within 30 days after the closure of a quarter. However in future there will be no delays. | Quarterly performance Reports should be submitted to the Government Audit Section. |
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.99,415,402 and the corresponding deficit in the preceding year amounted to Rs.20,282,474. Therefore an deterioration amounting to Rs.79,132,928 of the financial result was observed. The reasons for the deterioration is that the loss of Rs.91,185,567 arise from the investment in Associate Company Loss.

2.2 Trend Analysis of major Income and Expenditure items

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

- (a) Main income ways of the board is increased by 41 per cent when compared with previous year. The main reason for this improvement is over 56 per cent of receipts compared with last year from the treasury.
- (b) Receipts from miscellaneous income sources had been deteriorated by 52 per cent relatively to the previous year.
- (c) Receipts from other income sources had been deteriorated by 27 per cent relatively to the previous year, receipts from dividend income reduce by 33 per cent in this year relatively to the previous year had reason for this deterioration.
- (d) Profit share by the investment on DHPL a company associated with board have deducted about 220 per cent while comparing this year with the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

The Board has invested in ordinary shares of 35 companies and preference shares of 29 companies and those balances as at 31 December 2018 amounted to Rs.58,312,483 and Rs.105,066,208 respectively. Dividends of Rs.3,952,557 had been received for the investment of Rs.14,418,550 on ordinary shares made in three companies alone in the year under review while no dividend whatsoever had been received from the remaining companies in which investments had been made in ordinary shares and from 29 companies in which investments had been made in preference shares. Moreover, 3 companies in which investments totaling Rs.17,315,000 had been made, were dissolved in the years 2002, 2007 and 2009 and the liquidator had informed of an unavailability of assets to repay the monies invested in shares. Further, a sum of Rs.58,587,917 invested in 25 companies that had been struck off from the Register of Companies, could not be recovered and the Board had not taken action to avoid possible capital losses by timely review of investments.

Comments of the Management

11 companies were struck off by the Registrar of Companies Registry. The board got the permission to check these files from the companies Registrar. Two companies asset got under the government and two companies are re operate and other files will be checked and get action.

Recommendation

The most suitable action should be taken to collect money which are want to be charge for the board and institutes those are not hang profits should be checked .

3.2 Operational Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| <p>(a) Even though provisions of Rs.6.8 million had been allocated to participate 25 exporters under the Export Promotion Programme held in Netherland from 14 May to 17 May 2018, only 19 persons had been made to participate by spending a sum of Rs.4.5 million. Moreover, it had been indicated by the performance reports they submitted that 08 persons out of the participants could not claim shares of the export market and that their objectives could not be achieved by participating in the said programme. Further, the participants had not entered into an agreement with the Board on the progress to be fulfilled and achieved.</p> | <p>Because we have to consider the advices by Sri Lankan Ambassadorial Offices from relevant countries and the possibilities for the certain stores, So 19 companies have been selected. So the institute have the ability to save Rs.175,000.</p> <p>From among participated 19 companies the Export turnover wasn't reported in custom information belongs to seven companies those are exporting services like Communication Technology and Tourism.</p> <p>After considering the companies which are not still exporting and suit abilities of them. It's a liability of the Export Development Board to give them a chance.</p> <p>To set results from the development program is based on Communication Skills, Experience and Knowledge of the agent who participate by boring the company.</p> <p>It's hard to gather positive results from every company who participated. However from this program Sri Lanka can have the capability to improve the GSP + tax alleviation.</p> | <p>Board had reimbursed of 50 per cent amount of Rs.75,000 Airfare Tickets, so should be enter an agreement with two parties.</p> |

- (b) A National Organic Control Unit had been established in the Board by Gazette Extraordinary No.1870/71 dated 11 July 2014 and after a lapse of 3 years, a Consultant had been recruited therefor on the basis of paying Rs.750,000 in terms of the relevant agreement according to Director Board's Paper No.2017/8/74 dated 31 August 2017. Even though it had been mentioned in the Gazette Notification that the National Organic Unit should be operated as an independent unit, it had been operated under the Agro Unit. Moreover, the Consultation Committee and the Technical Committee should be met once in a quarter. However, only one meeting of the Consultation Committee had been held in the year under review while no meeting of the Technical Committee had been held. Moreover, sums of Rs.155,149 and Rs.136,149 had been spent therefor in the years 2017 and 2018 respectively and even though 100 applications had been received, no registration certificates had been issued to any institution.
- Meeting of the Technical committee was unable to hold because of recirculation and the publication regarding on Sri Lankan Standard Number 1324 about organic agriculture which was issued by the Sri Lanka Standards Institute had not been done up to the month of February 2019. Works were done to issue the registration after holding the meeting on month of March 2019. All the decisions of the Technical Committee are being taken according to Sri Lankan Standard Number 1324.
- Main objective of National Organic Control Unit had been established for issue the Registration certification. Should be get action immediately.

- (c) A sum of Rs.11.67 million had been spent for the Gulf Food Exhibition held from 18 February to 22 February 2018 and made to participate 24 companies with the motive of promoting market shares for the food of Middle Eastern and African regions and out of those companies, the quantity of export of 09 companies had declined from 1 per cent to 51 per cent.
- In 2018, the price of coconut, tea and other agricultural commodities had been increased mainly due to the prevailing dry weather condition in Sri Lanka. Therefore Competitiveness of the international market was reduced. As a result of this crisis in international market for tea has been attributed to decline in exports of tea exporting companies. This affect economic crisis in Iran, Syria, Libya & substantial competitiveness among other tea export countries.
- The Board should provide financial support as well as guideline in didactic to exporters for achieving the desired objectives in attending trade shows.
- (d) Nine exporters had been made to participate in the trade exhibition (Seafood Expo Gold) held in Brussels in Belgium from 24 April to 26 April 2018 with the motive of increasing trade transactions relating to fish and fish products and 5 companies out of them had been sponsored more than four times. Accordingly, the Board had not paid attention in giving opportunities to new exporters. Further, exporters who had participated only once should be 100 per cent sponsored for exhibition ground rent and exhibition stalls cost. Nevertheless, only 50 per cent had been sponsored for two such companies. Moreover, the quantity of export of 5
- Compared with the previous year the provision of fish was weak on this year. They are taking order from purchases according to the quantities that Export companies are receiving.
- As exports are reduced due to lack of supply, Therefore new fish product should be introduced to the export sectors.

companies which participated at the exhibition had declined ranging from 5 per cent to 52 per cent as compared with the preceding year.

3.3 Under - Utilization of Funds

| Audit Observation | Comments of the Management | Recommendation |
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| Though 16 program which are not implemented during 2018 but can be seen those have been included in to Annual Action Plan. Therefore the allocation is about is Rs.15.25 million. | The reason for the delay of the procurement committee decision is the feature of identifying a suitable consultant and problems of turnover. Hence this cause the inability to launch the program. | By drawing attention for the problems which can affect further wont to prepare plans on the stage of that can launch. |

3.4 Human Resources Management

| Audit Observation | Comments of the Management | Recommendation |
|--|--|--|
| Up to the date 31 st of December 2018 through the certified board consisting with 272 staff members there has been vacants for 118 designations. So truly board was consisted by 224 members. Regarding the vacant there were 15 positions of Senior level 18 positions of Junior level and Low level 11 positions. | Before filling new positions among 15 positions of Senior level approved by the Development Board to get an allowance for the procedure of recruitment forward to the Department of Management Services. According to the allowance of the Director Board on the date 08 th of May 2019. Work had been done to fill other posts. Assistant Director (Currency), Export Development Officer, Post of composing computer program. | Action should be taken to identifying relevant posts and fill these vacancies. |

