

Board of Investment of Sri Lanka - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Board of Investment of Sri Lanka (“Board”) for the year ended 31 December 2022 comprising the Statement of Financial Position as at 31 December 2022 and the Income Statement, Comprehensive Income Statement, 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. My Comments and Observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

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

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

1.4 Audit Scope

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

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

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

1.5.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	The dues from BOI approved enterprises as at 31 December 2022 was Rs. 873,876,132 and out of that a sum of Rs. 143,523,834 or 16 per cent had remained for more than 05 years. The Provision for impairment on dues was Rs. 359,321,925 and it represents 41 per cent of the total dues as at 31 December 2022.	A major portion of dues over 5 years are from cancelled projects or ceased projects.	Actions should be taken to recover the due.
(b)	A sum of Rs. 164,144,352 out of other receivable amounting Rs. 169,242,658 or 97 per cent had remained outstanding for more than 05 years.	Actions will be taken to recover or written off with proper approval.	- Do -
(c)	The amount due from Lanwa Sanstha Cement Corporation (Pvt) Ltd as at 31 December 2022 was Rs. 152,842,821 and this has accumulated over the past years since year 2019 without paying.	BOI obtained legal opinion and also had several meetings with the enterprise to resolve the matter and now the management is considering to initiating legal action against the enterprise.	- Do -
(d)	A provision for impairment of Rs. 227,360,269 had been made during the year under review for	Noted.	- Do -

annual fee which was 90 percent out of total due from annual fee as at 31 December 2022. Further out of that 92 percent, 90 percent provision was made for capital loss amounting Rs. 24,706,100.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations No. 371 Subsection 05 & Subsection 02 (b)	Unspent advance amount had not been settled just after the payment was done in Katunayake Export Processing Zone and Seethawaka Export Processing Zone. Further, an ad-hoc sub imprest had been issued by exceeding the limit.	Recognizing the need for improvement in this area, the Board has already issued instructions. We will initiate further actions in the future to prevent delays in advance settlements.	Action should be taken in accordance with the Financial Regulations.
(b) National Procurement Guidelines - 2006	The construction of road leading to Director bungalow in Seethawaka Export Processing Zone had been done contrary to the guidelines 3.2.1, 8.9.1(a), 8.9.3, 4,3,1 and 5.1.1 (a) of the Government Procurement Guidelines.	The work has been awarded and monitored by the three-member committee (02 engineers from enterprises and Director – Zone) appointed for the purpose. Since government funds have not been utilized for this project, the committee has not followed the national competitive bidding process.	Action should be taken in accordance with the National Procurement Guidelines.

(c) Management Service Circular No.02/2016 dated 25 April 2016 and Circular No. 02/2016 (01) dated 22 October 2016

Although, approved salary code for Executive Directors and Senior Executive Director are HM 2-1 and HM 1-1, the board had kept relevant officers at salary code of HM 2-2 and HM 1-2.

Arrangements are being made to place the Senior Deputy Directors and Executive Directors on the accurate salary code as per the Circular.

Action should be taken in accordance with the Management Service Circulars.

(d) Public Enterprises Circular 01/2021 dated 16 November 2021

I. Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises (SOEs)

i. Section 2.6

The Executive Director- Human Resources and Administration had been appointed as the secretary of the Board of Directors.

The Board of Directors at its meeting held on 04.05.2022 has granted approval to permit Executive Director (HR & Administration) to continue in the capacity of Secretary to the Board due to the issuance of National Budget Circular No. 03/2022 dated 26.04.2022 has been issued by the Secretary to the Treasury.

Action should be taken in accordance with the Public Enterprises Circulars.

ii. Section 3.1 Though the website Year 2021 report - Do -
should include at least will be uploaded
the Annual Reports of soon.
the last 05 years, only
the Annual Reports
related to the years
2019 and 2020 were
uploaded to the
Website as at 31 July
2023.

II. Operational Manual
for State Owned
Enterprises
Section 3.1 & 3.2 The board had paid Rs. The Treasury - Do -
544,263,823 as approval had been
allowances and Rs, requested by letter
68,039,960 as bonuses dated 02.12.2021.
for the year under
review without the
approval of the General
Treasury.

2. Financial Review
2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 2,921,657,387 and the corresponding profit in the preceding year amounted to Rs. 1,363,405,054. Therefore, an improvement amounting to Rs. 1,558,252,333 of the financial result was observed. The reasons for the improvement are increase in revenue and finance income by Rs. 1,062,045,353 and Rs. 1,075,572,421 respectively.

3. Operational Review
3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Even though the Environmental Protection License has to be renewed and the renewal application should be submitted before 03 months prior to the date of expiry of the Environmental Protection License as per the	Noted and will follow up.	Environmental Protection License renewal process should be followed up.

regulation at the Act. However, Board of Investment of Sri Lanka had failed to follow up the action. Hence 6 enterprises at the Seethawaka Export Processing Zone had failed to comply with the above requirement.

- (b) Even though Wage rate applicable for the security officers of the Seethawaka Export Processing Zone, had been increased, Board of Investment of Sri Lanka had failed to monitor whether, actual benefit has gone to the employee. Therefore, 6 officers at Seethawaka Export Processing Zone, received wages below the minimum wage requirement for the month of March & November 2022. Further, as per the statement prepared by the private security firm to submit to the ETF & EPF, names of 5 security officers were not included for the month of December 2022.
- Instruction will be given to the private security firm to maintain the minimum wage rate & Board of Investment of Sri Lanka will monitor the same. Further, Instructions had been given to the Security firm to remit EPF & ETF before submitting invoices to Board of Investment of Sri Lanka. BOI should monitor salary payment and remittance of EPF & ETF with regards to the security officers.
- (c) The Security firm of the SEPZ had failed to deploy required security officers in accordance with the clause no 03 of the security agreement in the selected sample of Month of July, October, November & December 2022. Further, 12 hours shifts should be provided, but as per the invoices that included over 24 shifts. This badly affect the security of the Zone.
- The Security firm have been informed several times to refrain from deploying security personnel over 24 hours, a penalty is charged to discourage such instances. Security of the Zone should be strengthened.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) In year 2020, the board had planned to establish a pharmaceutical production zone in Arabokka which spread over 400 Acres with estimated investment of Rs. 2460 million. Following observations were made with regards.</p>		
<p>i. Since the land received as a grant to this project, without carrying out of a feasibility study, this land was used to the project by conducting only Strategic Environment Impact Assessment report.</p>	<p>Based on the instruction given by the committee formed for establishment of a new pharmaceutical zone, it was planned to establish this special pharmaceutical processing zone at the Hambanthota area.</p>	<p>Feasibility study should be conducted before start an investment project.</p>
<p>ii. By the end of the year 2021, the provision of infrastructure should be completed, but by October 2022, the provision of electricity facilities is 70 percent, the provision of water facilities is 0 percent, and the provision of highway facilities is very slow.</p>	<p>Due to the Covid – 19 pandemic and economic regression during the year 2021/2022 and government policies for the control government expenses, development activities were suspended.</p>	<p>Action should be taken in accordance with Project proposal.</p>
<p>iii. By the end of 2022, the estimated cost of the entire project is Rs. 2,460 million. 1,680 million, i.e. 68 percent of the related work should have been completed, but due to the economic difficulties in this country, as of October 2022, an amount of Rs. 275.15 million, i.e. 10.16 percent, has actually been spent for this purpose.</p>	<p>During the period of 2020-2021-2022 and early 2023, the country was affected by Covid and severe economic downturns, and a favorable environment for investors did not develop in the country and money for infrastructure was severely limited by the government.</p>	<p>Action should be taken in accordance with Project proposal.</p>

- iv. Although the Board of Investment had launched promotional programs to attract investors to the region, although several investors had participated in initial discussions, no investors had yet come forward to invest in the region. Due to the current global crisis situation, attracting investors is at a backward level, but we hope for more effective progress in attracting investors with the development of infrastructure in the region in the future. Action should be taken to attract investors.
- (b) The following observations were made regarding the industrial zone planned to be set up as a special industrial zone for textiles at 400 acres of land situated in Eravur at a cost estimate of 4,770 million rupees.
- i. The Board of Investment had to spend an additional amount of Rs. 107,890,674 for the land that had been acquired for the construction of this zone due to the delay in taking decisions for land acquisition. The delay in acquisitions was due to the government's policy decision to abandon the land acquisition process. Action should be taken in accordance with Project proposal.
- ii. Even though the construction work of the Sea Outfall system has been started, the ownership of the nearly 100 acres of land has not been transferred to the Sri Lanka Board of Investment by 30 November 2022. The land is owned by the Government of Sri Lanka and in relation to it, the Board of Investment of Sri Lanka had incurred an expenditure of Rs. 927,738 for the survey work by the month of October 2022. The transfer of the land is currently being carried out with the coordination of the Batticaloa Divisional Secretariat. The process of getting transferred of the land should be speed up.
- iii. The work of the project should be completed by January 2023 at a suitable level to attract investment, but by November 2022, it was not even close to such a suitable level. Carrying out of development works was delay in 2020/March and 2021 due to the Covid epidemic situation and in 2022 due to temporary suspension of the implementation of projects carried out using local funds related to the control of public. Action should be taken in accordance with Project proposal.

expenditure in accordance with the National Budget Circular No. 03/2022 dated 26.04.2022 by the Ministry of Finance.

- iv. To attract investment to the region, the Board of Investment had launched promotional programs for the year 2020, 2021 and 2022, but so far only one investor had come forward to invest in the region. Due to the current global crisis situation, attracting investors is at a backward level, but we hope for more effective progress in attracting investors with the development of infrastructure in the region in the future. Action should be taken to attract investors.
- v. For the project of providing basic internal water facilities, the Sri Lanka Board of Investment, without any agreement or memorandum of understanding, Rs. 24.019 million had been paid. Agreements in the past with the Board of Investments for consultancy services for infrastructure, design works and certain services for the payment of money made to government institutions It should be noted that no withdrawal has been made and no problem has arisen so far. Agreement should be entered into.
- vi. Although Rs. 16.1 million was estimated for the years 2020, 2021 and 2022 for the works of providing basic water facilities, as of 30 November 2022, an amount of Rs. 24 million had been spent for it. Accordingly, by the year 2022, an amount of Rs. 7.9 million had been spent beyond the estimated cost. Noted and Agreed. The cost should be incurred within the given estimation.
- (c) None of the recent projects to launch new investment zones have so far been able to move towards the desired targets. Details are as follows. Regions such as Bingiriya, Eravoor, Arabokka, which were started recently, were affected by Covid and severe economic downturns in the country. Action should be taken to attract more investors and turn new zones for viable projects.

Zone	Estimated amount Rs. Million	Actual amount incurred	Total Acreage of Land	Acreage of land used	No. of investment projects
Millaniya	13,474	2,300.5	The proposed land has not been acquired so far.		
Bingiriya	2,266	1,052.3	440.58	30.72	3
Eravura	1,750	361.8	262	50	1
Arabokka	2,460	275.15	400	None	

during the period of 2020-2021-2022 and early 2023 and a favorable environment for investors did not develop in the country and money for infrastructure was severely restricted by the government. It is significant to be able to establish 04 investments in the Bingiri region, 50 acres in the Eravoor region and 30 acres in the Arabokka region during this difficult period.

- (d) The land with 2 Acres which is located near to the Lakshmi Vidyalaya – Katunayake had been utilized by Lakshmi Vidyalaya. However, this land was shown under Non-Industrial area without being transferred the ownership to the above external parties or entering into a formal agreement to lease out the land.
- The ownership of this land still lies with BOI and presently the school and general public are using this as a playground. Action will be taken to transfer ownership to Lakshmi Vidyalaya through the Educational Department based on the commitment given in 1995 with the approval of the Board of Directors of Board of Investment of Sri Lanka.
- Necessary action should be taken with the approval of the Board of Directors.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
Board of Investment of Sri Lanka. had deducted an amount of Rs. 51,492,525 from the contribution to the Consolidated Fund of Rs. 500,000,000 as the recovery of salaries and allowances payable to special	Action would be taken in year 2023 to refund the excess amount.	Deductions from the contribution to the consolidated fund should be refund immediately.

unit established under a Cabinet decision. However, at the end of May 2022, 08 officers out of 09 recruited had resigned from their posts and total payment for the 09 officers in 2022 was Rs. 18,793,706. Therefore, it was observed that Board of Investment of Sri Lanka. had failed to refund the balance amount of Rs. 32,698,819 to the Treasury as the Contribution to the Consolidated Fund and had shown under Receipt In Advance as at 31 December 2022.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) An extent of 773.09 acres of land in 13 Zones were vacant as at 31 December 2022 and it represents 30 percent of the industrial area which was available for investors. Further, lands in Arabokka (Pharma Zone) and Bingiriya Export Processing Zone phase II with an extent of 751.7 acres and 282.9 acres respectively had been remained idle without being utilized as at 31 December 2022 since their inception. Further, an extent of 777.11 acres of land in outside the Economic Zones were remained idle as at 31 December 2022.	BOI is continuously taking the steps to promote the vacant lands among the investors. Further, the vacant land details are included in the land bank and also as a new strategy, BOI is communicating with the existing investors to promote zonal lands.	Actions should be taken to promote vacant lands.
(b) Only 800 meters had been utilized out of 10.8 Km of internal road at Mirijjawila Export Processing Zone,	Planning and development of road network in Mirijjawila Export Processing Zone had been initiated by the Urban	Internal roads at the Zones should be properly planned and constructed.

constructed at a cost of Rs. 516,964,285. Further, the width of the road which is ranging from 26.5m – 33m is higher than standard width of 7.4m carriage width with overall 20m reservation.

Development Authority (UDA) and UDA had entrusted the road construction works to Road Development Authority (RDA) at the time when the land was in their custody. In 2012 the land was vested with BOI with the construction works carried out by RDA.

- (c) A plot of land with 5A 3R 30.1P extend in immediate vicinity of KEPZ allocated to Sri Lanka Red Cross Society (SLRCS) for the purpose of establishment of training center of Disaster Management Center (DMC) was underutilized as at 12 October 2022.
- It was agreed by both parties to explore ways and means to identify suitable investor in order to share the mutual benefit for both parties of SLRCS and BOI.
- Necessary actions should be taken to effectively utilize the lands available.

3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>Although as per paragraph 4.3 of the procurement guidelines of 2006, total cost estimate including all associated costs shall be prepared by the procurement entity and total cost estimate should identify cost of procurement preparedness activities and post control award activities separately, due to failure to comply with the above requirement following variances had been occurred in rate per the kilometer of each route in the procurement procedure on staff service buses.</p>	<p>At the price estimation stage. The estimate was made based on the prices previously quoted for each route. However, the price of each route varies with factors. Hence the cost estimate cannot be made using a scientific method.</p>	<p>Actions should be taken in accordance with Procurement Guidelines.</p>