

Sri Lanka Export Development - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 2023, 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 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

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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
Contrary to the paragraph 42 of Sri Lanka Accounting Standard 08 (LKAS 08), previous year errors related to the depreciation of property, plant and equipment and intangible assets aggregating Rs. 2,949,214 had been adjusted in the year under review.	The amount adjusted in 2023 relating to the previous year was Rs. 2,949,214, which is only 0.41% of the reported income for the year ended 31.12.2023. Additionally, it is only 3.8% of the total comprehensive income reported. Hence, based on materiality, it may not be required to consider the said transaction as a prior-year transaction.	Action should be taken to correct prior period errors by restating the balance as per the Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A payment of Rs. 49,250,000 made to the Board of Investment of Sri Lanka during the year 1994 as a non-refundable government share for a project had been shown in the financial statements as an investment in shares.	The EDB cannot reclaim this money and the EDB has requested approval from the Public Enterprises of the General Treasury to write off Rs. 49.25 million, recorded as an investment in preference shares as it was a government contribution according to the Cabinet Sub-committee's decision on January 25, 1994.	The investments should be accounted accurately.
(b) The market price of 1,413,772 shares of a private company in which the Board had invested a sum of Rs. 13,150,000 had been shown in the financial statements as Rs. 158,639,356 as at 31 December 2023 which was the market value of	The market value of the shares of the investee company as of 31/12/2023 could not be determined as both the investee company and the similar company reported losses for the year 2023. The value of shares of investee company has	The market value of the shares should be calculated by using an acceptable method.

the shares as at 31 December 2022. However, it was not confirmed to the audit that the market value of the shares as at 31 December 2023 was same as the market value as at 31 December 2022 as the accuracy of the base for calculation of the market value of shares was not confirmed to the audit.

been tested for impairment, and there is no evidence to suggest impairment of the value taken for reporting purposes. Therefore, the same value was reported for the financial statements for the year ended 31/12/2023.

1.5.3 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) Although the requested approval had not been granted from the Department of Public Enterprises, the staff loan scheme consisted with four categories of loans with an interest rate of 4.2 percent is being implemented under the approval of the board of directors since the year 1985 and the balance of staff loans as at 31 December 2023 had been Rs. 41,554,053.	The staff loan schemes have been implemented by the EDB with the approval of the Board since 1985. Approval of the Board has been granted for these loans based on the relevant Public Administration Circulars, such as No. 08/2005 and 26/97. On 29.05.2007, the EDB obtained the concurrence of the Secretary of the then Ministry of Export Development and International Trade to continue the loan schemes.	The approval from the Department of Public Enterprises for the staff loan schemes with concessionary interest rate should be taken.
(b) The Board had gifted half a sovereign gold coins to the employees who have completed 25 years in a permanent post at their retirement or resignation from the service and the Board had incurred a sum of Rs. 595,600 during the year under review for the same without the approval of the Department of Public Enterprises.	The EDB presents a half-sovereign gold coin to employees who have completed 25 years of service in a permanent position at the EDB upon their retirement or resignation, in appreciation of their service. This practice was initiated in 2014 with the approval of the Chairman/CEO, following a proposal submitted by the EDB Welfare Society. A sum of Rs. 595,600/- was incurred for presenting gold coins to 7 eligible employees who retired in 2023. No approval was obtained from the Department of Public Enterprises for this purpose.	The approval from the Department of Public Enterprises for gifting scheme of the staff who completed 25 years, should be taken.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Investments in shares	35,431,905	share certificates	The EDB invested in these companies to enhance their credibility and facilitate access to loan facilities from banks. However, share certificates of the companies are not available due to reasons such as handing over original share certificate to liquidator and share certificates are under investigation etc.	Relevant documentary evidences should be presented to the audit.
(b) Impairment of share investment	35,273,710	share certificates		

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The amount receivable from 146 exporters out of export credit given by the Board to the exporters as at 31 December 2023 was Rs. 38,027,520. A 96 percent of that amount had not been recovered over a period of 25 years.	The majority of these remaining exporters have been impacted by various unforeseen challenges and may not be able to carry out their projects as expected due to the unfavorable economic situation our country has faced in recent times. Under such circumstances, EDB could not effectively carry out recovery activities during the period under review.	Prompt actions should be taken to recover the export credit balances.
(b) The Board had not recovered deposits amounting to Rs.901,000 made to obtain services from 07 institutions over a period from 07 years to 25 years.	Most of the refundable deposits were collected during 2022 through a special assignment. However, an impairment provision of Rs. 884,949 is now maintained for those refundable deposits that could not be recovered due to various reasons.	Prompt actions should be taken to recover the deposits made to obtain services.
(c) The Board had failed to recover a sum of Rs.10,403,683 given to farmers under the Uva Paranagama Export Production Villages	The Uva Paranagama Export Village Company collected the products from the growers and delivered them to the exporters involved in the project. EDB collected the sales revenue from the export companies and remitted the loan installments to be paid to the Treasury,	Prompt actions should be taken to recover the receivable amount from the farmers.

(UPEPV) Programme payments for the growers for the products over a period of 14 years. provided, and necessary funds for administrative and other expenses to the company. To record these transactions, a control account was maintained of which final debit balance remains at Rs. 10,403,683. The follow up procedures are carrying out for recoveries.

- (d) The Board had failed to recover a sum of Rs. 7,230,203 from other debtors over a period over 10 years. This represents the remaining portion of financial assistance granted to exporters. The Legal Unit of the EDB is in the process of taking legal action against the directors of debtor companies that are currently closed. Prompt actions should be taken to recover the balances from debtors.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Public Enterprises Circular No. 01/2015 dated 25 May 2015	The Board had paid a transport allowance of Rs. 13,975,608 during the year under review for 162 employees of the Board under MM, PL, MA and JM salary categories who are not eligible for transport allowance.	The Board paid transport allowances totaling Rs.13,975,608 during the year 2023 for employees in the MM, JM, MA, and PL categories. A monthly transport allowance based on attendance was provided as per the approval given by Board Paper No. 2022/11/532 dated 1st December 2022.	Transport allowances should be paid by following the provisions of the public Enterprises Circular.
(b)	Financial Regulations 756(6)	Although the board of survey report should be presented to the Auditor General before 15 of June of the subsequent year, the board of survey report of the Board had not been presented to the Auditor General even as at the date of this report.	The Board of Survey is currently being completed, and the report will be submitted to the Auditor General before 31st July 2023.	The Board of Survey report should be presented to the Auditor General as prescribed by the Financial Regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 77,657,726 and the corresponding surplus in the preceding year amounted to Rs. 314,329,241. Therefore, a deterioration amounting to Rs. 236,671,515 of the financial result was observed. The reasons for the deterioration are the decrease of other comprehensive income by Rs. 101,580,956, and increase of provision for impairment for investments and other receivables by Rs. 139,996,919.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Board had incurred a sum of Rs. 1,043,150 during the year under review in order to obtain 2 valuation reports for a land which is not under the ownership of the Board and for the rent of the floors of the building where the Board is located.	This was needed by EDB to negotiate the purchase price of DHPL shares enable SLEDB to increase the shareholding of DHPL to the original status. EDB made the payment of Rs.2,368,120 of valuation fee and since information of said valuation report is used by the National Development Bank as well to determine the rent value of floors which was required to renew the lease agreement between NDB and DHPL, EDB managed to obtain Rs 1,324,970 from the National Development Bank. Hence, actual cost incurred by EDB for this purpose should be read as Rs.1,043,175.	The Board should not be incurred expenses on assets not under the ownership of the Board.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Board had failed to recover an investment amounting to Rs.40,217,028 made in shares of 26 companies written off from the Register of Companies, due to the insufficiency of continuous follow up procedures in connection with the existence of the companies which the Board had invested in.	The board will make arrangements to take action to claim the amount invested in those companies from vested assets by the government in accordance with the new provisions to be made to the Companies Act. The board is still collecting data on the directors of the affected companies, discussing with them, and working to integrate this information into the board's records.	The follow up procedures in connection with the existence of the companies in which the Board had invested should be carried out in order to take effective and efficient investment decisions.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The physical progress of 30 activities planned in the Action Plan to complete during the year under review had been in the range from 10 percent to 50 percent.	This is due to various reasons including lack of responses from embassies and exporters, insufficiency of budgets to cover high cost of implementation , time constraints for implementation, barriers for field visits etc.	Action plan should be prepared after considering all affecting matters and activities of the action plan should be implemented as planned.
(b) The Board had not taken adequate follow up procedures to evaluate the progress of 07 export promotional events which participated 81 exporters with a cost of Rs. 16.487 million.	This is due to various reasons including matters that the program were organized by other parties, the progress reports were not submitted by participants although they were requested, the absence of participating EDB officers for programs etc.	Adequate follow up procedures to evaluate the progress of export promotional events should be carried out.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
06 posts out of 14 of the senior management level, 23 posts out of 64 of middle management level, 14 posts out of 44 of junior management level and 46 posts out of 126 of MA and PL grades of the Board had been vacant as at 31 December of the year under review.	Under the prevailing conditions of the country, a number of limitations were imposed from time to time by Circulars for recruiting staff to fill vacancies in 2023. However, in 2024, EDB has taken action to fill the essential vacant positions of the EDB obtaining approval of the Department of Management Services and Department of Public Enterprises.	Essential vacant positions should be filled to enable the achievement of objectives of the Board.