Board of Investment of Sri Lanka (BOI) - 2014

The audit of financial statements of the Board of Investment of Sri Lanka (BOI) for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow 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 31 of the Greater Colombo Economic Commission Law, No.4 of 1978 as amended by Act, No. 49 of 1992. My comments and observations which I consider should be published with the annual report of the BOI in terms of Section (14)(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditors' 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 Institution (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, 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 power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters 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 Board of Investment of Sri Lanka (BOI) as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

(a) Expenditure aggregating Rs.64,535,967 incurred on 28 completed contracts had been included in the capital work in progress as at 31 December 2014 without being capitalized or transferred to the deferred expenditure account. Further, a sum of Rs. 5,993,163 spent in respect of contract for supply and installation of borehole pump and connected accessories which had been terminated in the year 2008 had remained in the capital work in progress.

(b) Structure balance amounting to Rs. 5,162,735,184 was represented 67 per cent of the fixed assets as at 31 December 2014. The BOI had categorized Plant & Machinery, Internal Roads, Walk Ways, Jeep Tracks, Culverts, Boundary Walls, Fences, Gates, Entrance Buildings, Storm Water Drains, Supply Lines, Pipe Lines, Manholes, and Irrigation Canal etc. as structures under Property Plant & Equipment even though nature, residual value and life time of the above fixed assets are different with each other and all assets are being depreciated based on 20 years economical life period or at the rate of 5 per cent per annum.

(c) A sum of Rs.6,758,323 received in respect of three activities (Commonwealth for FDI promoting, relief for flood victims and Tsunami relief fund) had been erroneously shown under the sundry creditors as at 31 December 2014 instead of being shown properly.

(d) Ground rent totalling Rs.813,238 in connection with lands with extent of 1.46 acres occupied by 08 BOI enterprises at Katunayake Export Processing Zone had neither been invoiced nor taken into account during the year 2014 as well. Hence, the revenue for the year under review had been understated by same amount.

(e) A sum of Rs. 24,844,375 had been paid by the BOI to the Surveyor General on 10 September 2010 in order to meet the immediate survey expenses in respect of Agro Farms Development Programme. Subsequently, on 06 January 2011 a sum of Rs.9,000,000 had been refunded by the Surveyor General and another amount of Rs.14,837,882 had been deducted for the services obtained by the BOI as per the letter dated 14 September 2011. Accordingly the actual receivable balance was Rs.1,006,493. However, a balance of Rs.15,844,375 had been included in the advances for preliminary expenditure on projects as at 31 December 2014.

(f) Even though according to the information made available at the Technical Division of the BOI the retention money related to three construction contracts totalling Rs.3,546,975 had been already settled, the said amount had been included in the retention money payable balance shown as at 31 December 2014.

2.2.2. Accounts Receivable and Payable

(a) Dues from Enterprises

A sum of Rs.200,513,779 was dues from the BOI approved enterprises as at 31 December 2014. The details of provision for impairment and bad debts written off thereon as at the end of the year under review as compared with preceding four years are given below.

Description	2014	2013	2012	2011	2010
	Rs.	Rs.	Rs.	Rs.	Rs.
Dues from BOI Enterprises	719,431,529	664,452,940	701,884,118	623,861,381	631,911,594
Provision for impairment	518,917,751	493,484,649	492,790,570	437,041,560	249,452,238
Provision for impairment as a percentage of total dues	72	74	70	70	39
Bad debts written off during the year	1,055,613	13,483,407	5,517,032	73,113,266	8,306,417

The following observations are made in this connection.

(i) Provision for impairment on dues from these enterprises had rapidly increased during the last five years from 39 per cent in 2010 to 72 per cent in 2014 thus, indicating that the follow up action on the recovery of those outstanding balances was at a very weak level.

(ii) Out of total provision for impairment of Rs.518,917,751, a sum of Rs.513,085,170 or around 99 per cent represented dues from cancelled and closed down projects as at 31 December 2014.

(iii) A provision for impairment of Rs. 201,545,912 had been made during the year under review for annual fees, which was 84 per cent of total annual fees of Rs.240,076,662 receivable as at 31 December 2014.

(b) Other Debtors

The details of outstanding balances of other debtors of the BOI and provision for impairment as at the balance sheet date as compared with the preceding four years are given below.

Description	**2014**	**2013**	**2012**	**2011**	**2010**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Other debtors	145,502,248	131,274,290	66,891,763	61,204,152	103,810,214
Provision for doubtful debts /impairment	111,709,320	120,257,749	61,204,152	7,688,630	48,234,339
Provision for doubtful debts/impairment as a percentage of total other debtors	76.7	91.6	91.5	12	46

The following observations are made in this connection.

(i) Impairment on other debtors represented 76.7 per cent of the total outstanding as at 31 December 2014 thus, indicating the poor recoverability position of dues.

(ii) A sum of Rs.1,604,200 receivable from a private company which was the auctioneer of Wathupitiwala housing units had remained for over 5 years and no any evidence was made available to prove the existence of an agreement between the company and the BOI.

(iii) A cash shortage of Rs. 507,650 and a stock shortage of Rs. 2,090 shown under other debtors remained unchanged for over eleven years.

(iv) Out of total other debtors as at end of the year amounting to Rs. 145,502,248 an amount of Rs.94,959,501 or 65 per cent represented dues from Government Institutions.

The following observations are also made in this connection.

- Instead of recovering the outstanding balances receivable from the Government Institutions for more than two years, a 100 per cent provision for bad and doubtful debts had been made in the accounts. The amount of provision made in this regard was Rs.82,911,083.

- Other debtors amounting to Rs.5,257,979 receivable from following three Government Ministries were physically not existing.

Name of the Government Ministry	Amount due as at 31 December 2014
	Rs.
Ministry of Rehabilitation and Tamil Affairs	2,099,895
Ministry of Enterprise Development, Industry Policy & Investment Promotion	710,550
Ministry of Enterprise Development & Investment Promotion	2,447,534
	5,257,979

2.2.3. Defaulted Value Added Tax

The BOI had not paid the Value Added Tax amounting to Rs.9,108,682 relating to the 4th quarter of the year 2013. Actions had not been taken to remit this amount even by 31 May 2015.

2.2.4. Refundable Deposits

Out of the retention money totalling Rs. 25,569,041, a sum of Rs.4,970,347 or 19 per cent related to 69 contracts had remained unsettled for more than three years.

2.2.5. Lack of Evidence for Audit

Differed expenditure balance as at 31 December 2014 amounting to Rs.415,062,611 could not be satisfactorily verified due to unavailability of evidence such as nature of the expenditure, year of payment, total period of amortization, remaining period of amortization etc.

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

The following instances of non-compliance were observed in audit.

	Reference to Laws, Rules and Regulations etc.	Non – Compliance
(a)	Public Administration Circular No. 13/2008 of 26 June 2008.	The employees of the BOI who had enjoyed monthly transport and fuel allowances had further enjoyed monthly driver's allowance of Rs.15,000 contrary to the provisions in the Circular. The BOI had paid a sum of Rs.2,874,500 for the above allowance during the year under review.

(b)	Public Enterprises Circular No. 95 of 14 June 1994, Management Services Circular No. 30 of 22 September 2006 and the letter No.DMS/A2/BOI of 02 January 2007, send by the Department of Management Services.	(i) The employees of the BOI had enjoyed professional allowances or postgraduate degree allowances without obtaining required approvals from the relevant Authorities concerned and the total amount so paid by the BOI during the year under review was Rs.6,766,104. (ii) The employees of the BOI had been paid with both attendance incentive and encashment of unutilized medical leave together contrary to the provisions in the Circular by introducing a new attendance allowance scheme for key performance payments and the BOI had incurred an overpayment of Rs. 128,419,019 on both these allowances during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the BOI for the year under review had resulted in a pre-tax net profit of Rs.432,571,478 as compared with the corresponding pre-tax net profit of Rs.313,548,256 for the preceding year, thus indicating an improvement of Rs.119,023,222 in the financial results for the year under review. The increase of revenue by way of receiving the portion of land premium income amounting to Rs.289,522,676 out of the total land premium of Rs.12,807,450,000 from two BOI registered companies during the year under review was the main reason attributed for this improvement in the financial results.

3.2 Analytical Financial Review

3.2.1. Significant Accounting Ratios

According to the financial statements and information made available for audit, some important ratios for the year under review as compared with preceding 03 years are given below.

Ratio	**2014**	**2013**	**2012**	**2011**
Profitability Ratio (Percentage)				
Net Profit Ratio	12.05	10.45	10.29	3.89
Return on Total Assets	0.93	1.2	0.95	0.33
Return on Equity	0.95	1.2	0.99	0.28

Activity Ratios

Debtors Turnover Ratio –(Number of times)	4.48	3.98	3.36	3.19
Debtors Collection Period – (Number of days)	81	92	109	114

Liquidity Ratios –(Number of times)

Current Ratio	204.90	170.8	120.11	329.29
Net Current Assets to Total Assets	51.19	41.4	16.75	69.63

The following observations are also made in this connection.

(i) Debt collection of the BOI is in a weak level.

(ii) The BOI had invested a huge amount of money in working capital. Therefore, the profitability of the BOI was not in a satisfactorily level.

3.2.2. Analysis of Expenditure

Out of total expenditure incurred during the year under review, a sum of Rs.2,802.7 million or 82 per cent represented the administration expenses and 60 per cent of the administration expense was incurred for personal emoluments. The analysis of total expenditure of the Board is depicted in the table given bellow.

	Expenses during the year under review			
	2014		2013	
Category of Expenses	**Amount**	**percentage**	**Amount**	**Percentage**
	Rs.million		Rs.million	
Operating	299.38	11	337.01	13
Administration	2,303.29	82	1,983.45	79
Government Levies	161.68	6	148.12	6
Finance and Other Cost	38.35	1	39.95	2
	2,802.70		2,509.03	

3.2.3. Financial Analysis of the Export Processing Zones, Industrial Parks and Regional Offices

The following observations are made in this connection.

(a) Two Export Processing Zones and an Industrial Park had incurred losses before tax continuously since 2008 due to huge administration cost and underutilization of lands for revenue generation. Details are shown below.

	Losses incurred during the year						
Zone / Park	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Wathupitiwala EPZ	99	2,969	7,766	15,743	13,703	12,787	11,872
Koggala EPZ	43,027	14,050	11,775	26,980	17,503	23,149	23,412
Malwatta IP	4,635	2,748	5,531	3,226	3,458	3,639	2,576

(b) Profit before tax of Seethawaka Export Processing Zone had been increased by Rs.34 million in the year under review when compared with the previous year due to increase in net income from supply of water for enterprises.

(c) Profit before tax of Katunayaka Export Processing Zone had been increased by Rs.33 million in the year under review when compared with the previous year due to increase of import and export service charges.

4. Operating Review

4.1 Performance

(a) Details of approved Projects under Section 17 of BOI Law and agreements entered during the year 2014 and five preceding years and the total numbers of Projects cancelled and closed down or suspended are given below.

Year	**Number of Projects Approved** √*	**Number of Agreements signed** √*	**Number of Projects commenced during the year** √*	**Number of Projects cancelled** √**	**Number of Projects closed down** √**	**Number of Projects suspended** √**
2014	181	148	87	52	68	5
2013	176	145	93	120	38	7
2012	238	163	98	79	26	9
2011	160	165	99	47	7	4
2010	364	270	144	124	28	10

2009	384	182	134	93	12	4
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Total	1,503	1,073	655	515	179	39
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√* Including Expansions of existing Projects.

√** As per the current status of the Projects.

(i) The number of approved Projects had reduced by 53 per cent in the year under review when compared with that of 2009 and it was increased by 3 per cent as compared with previous year.

(ii) Number of Projects which commenced commercial operation during the year under review had decreased from 134 in 2009 to 87 in 2014.

(iii) Number of Projects cancelled had decreased by 58 per cent while closed down Projects increased by 78 per cent in the year under review when compared with the previous year.

(b) **Attracting the Foreign Direct Investments.**

(i) The details of foreign direct investments (FDI) attracted by the BOI during the period from 2009 to 2013 are given below.

Sector	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
	Rs. Mn	**Rs. Mn**	**Rs. Mn**	**Rs. Mn**	**Rs. Mn**	**Rs. Mn**
Manufacturing	333.90	359.76	307.65	322.42	159.65	164.47
Agriculture	5.72	8.47	7.17	17.97	6.45	3.69
Services	506.34	236.34	426.74	269.14	29.48	52.55
Infrastructure	682.45	786.83	596.60	456.53	320.72	381.54
Non BOI Project	87.85	-	-	- -	-	-
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	1,616.26	1,391.40	1,338.16	1,066.06	516.30	602.25
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The following observations are made in this connection.

- The investments attracted under the agricultural sector had decreased by 32 per cent while total foreign direct investments attracted had increased by 16 per cent as compared with previous year.

- The foreign direct investments in the manufacturing sector had decreased by 7 per cent in the year under review as compared with 2013.

(ii) The realized Foreign Direct Investments (FDIs) and Local Investments (LI) made through the BOI during the period from 2009 to 2014 are given below.

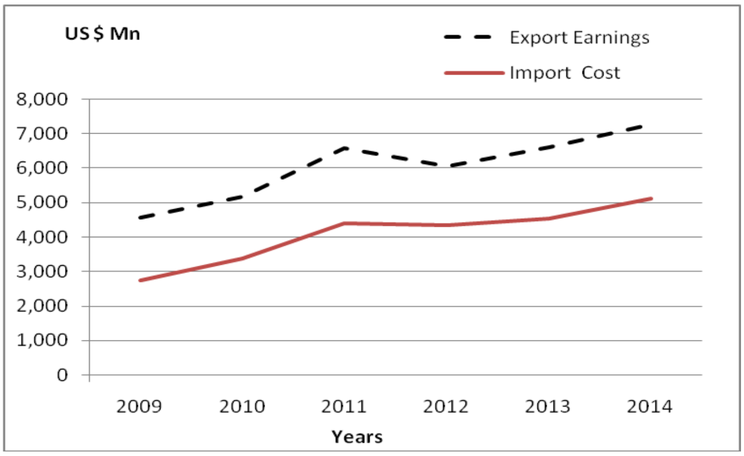
Year	Realized Foreign Direct Investments (FDI)	Realized Local Investments
	Rs. Mn.	Rs. Mn.
2014	1,135,236	631,130
2013	956,183	555,025
2012	828,005	452,154
2011	655,513	368,587
2010	536,140	331,849
2009	495,506	278,762

The realized Foreign Direct Investments (FDI) and Local Investments made during the year under review had increased by 19 per cent and 14 per cent respectively as compared with the previous year.

(c) **Import Cost and Export Earnings**

Total import cost and export earnings of the BOI enterprises during the year under review and in the last five years are depicted in the table and the chart given bellow.

Year	Export Earnings	Import Cost
	US $ Mn	US $ Mn
2014	7,257	5,112
2013	6,606	4,525
2012	6,042	4,345
2011	6,572	4,400
2010	5,171	3,360
2009	4,563	2,739



Trend of the import cost and export earnings

Export earnings through BOI enterprises were increased by 15 per cent and 5 per cent in the years 2013 and 2014 respectively as compared with previous year while import cost incurred by the BOI enterprises were increased by 2 per cent and 15 per cent in the years 2013 and 2014 respectively as compared with previous year.

4.2 Transactions of Contentions Nature

The following observations are made.

(a) Although the following expenditure totalling Rs.37,936,276 had been incurred under the investment promotion during the year under review, the purposes of spending these amounts are questionable in audit since these expenses may not related to the investment promotion.

(i) Payment of Rs.22,425,000 made to two private companies for the expenditure related to the Hambanthota Conclave-2014 held in BMICH on 09 December 2014.

(ii) Payment of Rs.10,000,000 made to the Sri Lanka Tourism Bureau on 26 March 2014, in respect of exhibition held in Janakalakendraya parallel to Commonwealth Heads of Government Meeting (CHOGM).

(iii) Spending Rs.3,311,276 for the advertisements in local newspapers relating to build up the image of then President.

(iv) Incurring Rs.2,200,000 for producing a 9.5 minutes documentary film on the recent development in the North and East Provinces.

(b) The BOI had paid a sum of Rs.100 million to the Sri Lanka Land Reclamation and Development Corporation (SLLRDC) for the construction of 15 houses in a land with an extent of 72.8904 hectares at Weliwewa Grama Niladari Division. These houses were built for the people who lost their houses due to construction of access road for the Sooriyawewa International Cricket Stadium. The following observations are also made in this connection.

(i) The obligation of the BOI regarding the construction of houses was questionable in audit.

(ii) Out of these houses, five houses had been handed over to outside parties nominated by the political authorities.

(iii) According to the Cabinet approval dated 06 December 2013, the ownership of the above land should be transferred to the BOI. However, the ownership of the land had not been transferred even up to May 2015. Hence, the ownership of constructed houses is remained in uncertainty.

4.3 Management Inefficiencies

(a) The BOI had paid Rs.15 million to the Urban Development Authority to meet the preliminary expenses relating to the acquisition of a land with an extent of 830 acres to set up a special economic zone at Godagama, in Matara. However, on 10 January 2008 the Cabinet Sub-committee on Investment Facilitation (CSIF) was decided to suspend the acquisition process and discontinue the proposal. At the meantime, the UDA had deducted a sum of Rs.2,899,062 against the expenditure incurred by them in this regard and subsequently Rs.2,000,000 had been recovered from the UDA and the remaining amount of Rs.10,100,938 had not yet been recovered.

(b) The BOI had purchased nine floors of the World Trade Centre Building in the years 2007 and 2008 for a sum of Rs.1,150 million and out of them 14,075 square feet had been rented out to the line Ministry. Meantime, the BOI had obtained 1012 square feet on rental basis and paid a sum of Rs. 4,012,377 during the year under review thereto.

(c) The BOI had entered into a lease agreement with a private company on November 1996 for obtaining an office space in World Trade Centre and a sum of Rs.2,637,240 had been paid to above company as initial deposit. Subsequently this office space had been handed over to the said company in June 2010. However the BOI had failed to recover the deposited amount even up to 31 December 2014.

(d) The Board of Directors of the BOI has granted the permission to the investment companies in terms of clause No.19 of the principal agreement to mortgage its leasehold rights and interests in the demised premises and the buildings thereon and all plant, machinery and fixtures permanently fastened to the demised premises to any Bank and / or Credit Institution by way of signing tripartite agreement.

The following deficiencies are observed in this regard.

(i) The Legal Department of the BOI had not maintained a proper register for mortgage lands and buildings.

(ii) No restrictions or limits included neither in the principal agreement nor in the tripartite agreement regarding the value that can be obtained by mortgaging leasehold rights over the property. Further, most of the companies ended up with liquidation by defaulting loans obtained from financial institutions.

(iii) The BOI had to bear loss of depriving the land value, opportunity cost of idling land and dues to be receivable to the BOI due to unsettled issues relating to mortgaged lands and buildings.

(e) The BOI had agreed with a Rubber manufacturing company situated at Horana Export Processing Zone, to reimburse the electricity tariff if the rates prevailed on 29 December 2000 will be increased over 6.9 per cent per annum. The following observations were made in this connection.

(i) The BOI had not obtained an assessment report from related Government Institutions before granting the approval for the Project.

(ii) The company had claimed a sum of Rs. 356,793,568 due to increase of electricity tariffs during the period of June 2002 to September 2007 and Rs.388,161,877 in respect of interest on delay in the payment of indemnity and the arbitration cost incurred by the company in terms of the final decision given by the International Court of Arbitration of the International Chamber of Commerce (ICC). The BOI made an appeal against the award given by the ICC at the Commercial High Court. Subsequently an award had given in favor of the BOI. The company had made an appeal against the award given in favor of the BOI. The two cases are handled by the Attorney General's Department.

(iii) The BOI had not obtained the assessment report from related Government Institutions on the availability of rubber wood in this area for consumption before granting approval for the Project.

(iv) The BOI was unable to recover the ground rental, water bills, and bungalow rental etc due from the company due to pending court cases.

(f) The Perth Estate was purchased by the BOI and a part of the estate had been handed over to the Sri Lanka State Plantation Corporation (SLSPC) for the management of five years period. The following observations are made in this connection.

(i) The BOI had not received the related financial statements since 2006 from Sri Lanka State Plantation Corporation (SLSPC).

(ii) The Corporation had not regularly remitted the profit to BOI as agreed except an amount of Rs. 10 million remitted during the year 2005. As per the financial statements submitted for the year 2006, the dues from the SLSPC pertaining to the Perth Estate was Rs. 16.47 million. However, the BOI had not clearly identified and recorded the correct amount receivable from the SLSPC even up to 31 December 2014.

(iii) The matters pertaining to the Perth Estate contravening the conditions of the agreement, such as increasing the management fees by 15 per cent, unilateral utilization of revenue by the Perth Estate, investment of revenue amounting to Rs. 20 million generated from the Perth Estate in the name of the contractor, unauthorized transfer of motor vehicles and bungalow rental amounting to Rs. 12.42 million through the current account to the contractor etc. are yet to be resolved.

4.4 Idle and Underutilized Assets

A Land named Maliduwakanda Estate with an extent of 122 acre 01 rout 27.4 perches purchased by the BOI on 08 January 2003 at cost of Rs. 97,937,000 had not been utilized for any purpose up to the end of May 2014. According to the fixed asset register, the book value of this land as at 31 December 2014 was Rs.100,800,000.

4.5 Human Resources Management

The following observations are made.

(a) Hundred and thirty six (136) vacancies in different categories of the staff, including 84 executive staff had not been filled even by 31 December 2014. Further, eleven clerical and allied staff had been employed beyond the approved cadre and 24 posts of the staff had been filled on contract basis.

(b) According to the approved cadre of the BOI, only one officer had been approved for the post of Chairman or Director General. However, two separate officers had been appointed to above posts without the approval from the Department of Management Services.

(c) The Board of Directors had approved consolidated remuneration of Rs.200,000 and Rs.525,000 in its meetings held on 19 November 2013 and 20 November 2014 respectively with the fuel allowance of 300 litre per month for the post of Director

General without obtaining proper approval from the Department of Management Service of the General Treasury and recommendation from the Salaries and Cadre Commission as per the Public Enterprise Circular No. 95 of 14 June 1994 and Management Services Circular No. 39 of 26 May 2009. As a result the former Director General had been paid amounts of Rs.337,890, Rs.537,475 and Rs.575,235 as consolidated remuneration for the months of November, December 2014 and January 2015 respectively.

(d) Contrary to provisions in Section 1 of Management Services Circular No.39 of 26 May 2009, the Board of Directors of the BOI had approved a monthly remuneration of Rs.640,000 including accommodation, air ticket and entertainment to the Chairman. Accordingly sums aggregating Rs.15,578,333 had been paid to then Chairman during the years 2013 and 2014. However, as per Section 1.2 of the Public Enterprises Circular No.58 (2) of 15 September 2011, the Chairman of the State Owned Companies under self-financed promotional agency (Promotional category-A) is entitled only for a monthly allowances of Rs.70,000 per month. As such BOI had over paid a sum of Rs.13,949,666 during the last 2 years.

(e) A sum of Rs.344,584,251 or 96 per cent of the basic salary had been paid to the staff as allowances during the year 2014 without obtaining proper approval from the Department of Management Services.

4.6 Resources given to other Government Institutions

According to Sections 8.3.9 and 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance, The Public Enterprises is not permitted to incur expenditure or deploy its resources under any circumstances, on behalf of the line Ministry. Contrary to this provision the following instances were observed in audit.

(i) The BOI had incurred the expenditure aggregating Rs. 878,500 on behalf of line Ministry during the year under review.

(ii) Further, four BOI officer had been attached to the line Ministry for the posts of Assistant Director, Security Officer, Receptionist and Office Aide without obtaining proper approval and incurred a sum of Rs 3,443,263 as salaries and allowances of them for the year 2014.

(iii) In addition to that, two motor vehicles had been released to then line Ministry and had incurred a sum of Rs. 2,751,809 for the period from 2009 to 2013 as repairs and maintenance expenditure and this amount had neither been recovered from the Ministry nor brought to accounts of the BOI as receivables. The Chairman had stated in his reply that these vehicles had not been permanently released to the line Ministry of Investment Promotion and released time to time for project monitoring activities during the year under review.

4.7 Identified Losses

A private company was entered into an agreement with the BOI on 14 August 1992 under Section 17 of the BOI Law to set up and operate a business of manufacture and export of apparel and other textile. On 5 November 1992 the BOI terminated the agreement and requested the company to transfer all buildings and machineries thereon to the BOI with the agreed compensation. The BOI had paid a sum of Rs.23,835,535 as full and final settlement.

Upon payment of the said sum, the Company had filed a case in High Court of Colombo bearing HC/ARB/1254/02 under Section 31 of the Arbitration Act, to enforce an arbitral award seeking a further payment of Rs. 37,200,000 from the BOI. As per the judgement delivered by the High Court on 14 May 2012, the BOI was liable to pay a sum of Rs.102,138,350 together with the interest component of Rs.64,938,350 accrued from 2002 to 2014. Further, on 22 December 2014 the Registrar of the Commercial High Court has given an order to seize a bank account of the BOI for an amount of Rs.102,138,350 since the BOI failed to comply with the High Court decision.

5. Accountability and Good Governance

5.1 Corporate Plan

Without considering the targets stated in the Corporate Plan for the period 2009 to 2013, the BOI had prepared a new plan for the period of 2011 - 2016 and for the period of 2014 to 2016. According to the new plan no specific targets had been established with specific time frame.

5.2 Action Plan

An Action Plan in line with Corporate Plan had not been prepared for the year under review.

5.3 Audit and Management Committee

According to Section 9.12 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Audit Committee should have met on a regular basis at least once in three months and should have submitted its observations to the Board of Directors with their recommendations for necessary actions. Even though the BOI had held four Audit Committee Meetings during the year 2014, all meetings were held during the last 6 months of the year and it was not used effectively to review observations continuously.

5.4 Budgetary Controls

Significant variations were observed between the budget and actual income and expenditure; as such the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the BOI from time to time. Special attention is needed in respect of the following areas of control.

(a) Maintaining of Accounting Records /Registers
(b) Personnel Emoluments
(c) Collection of Dues from Enterprises
(d) Controls over Journal Entries.