Board of Investment of Sri Lanka (BOI) – 2017

The audit of financial statements of the Board of Investment of Sri Lanka ("the Board") comprising the statement of financial position as at 31 December 2017 and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows 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 Board in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Board on 01 October 2018.

1.2 Management's Responsibility for the Financial Statements

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

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 powers 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 financial position of the Board of Investment of Sri Lanka (BOI) as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2. Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) **LKAS 01- Presentation of Financial Statements:-** The accounting policy, nature and circumstances associated with the expenditure incurred for facilitation of infrastructure for Mega Projects which directly deducted from the accumulated fund had not been disclosed in the financial statements.

(b) **LKAS 16 – Property Plant and Equipment:-** The Board had not charged the depreciation on fixed assets in the year of purchase. However, it had been charged in full in the year of disposal. Hence, the depreciation for the year under review had been understated by Rs. 7,866,369 in the financial statements.

(c) **LKAS 24 – Related Party Disclosures:-** The Board had failed to disclose the nature and value of individually significant transactions which conducted with related parties.

(d) **LKAS 39 – Financial Instruments Recognition and Measurement:-** The impairment on long outstanding balances of staff loan had not been recognized in the financial statements for the year under review.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) An amount of Rs 209,600,000 had been shown as receivable from Cashew Corporation of Sri Lanka in the financial statements since the year 2016. However, the corresponding amount had not been shown as payable to the Board in the financial statements of Cashew Corporation of Sri Lanka and this had not confirmed to the Board too. Hence, the recoverability of that balance was doubt in audit.

(b) The land premium income received from a private company in Horana Export Processing Zones (HEPZ) had been overstated by Rs. 1,410,549 and the differed revenue had been understated by the same amount due to computation error.

(c) Amortization on differed expenditure for the year under review had been overstated by Rs.1,330,929 due to computation error.

(d) Even though the total contract value of Rs. 930,142 relating to 3 construction works of Mirijjawila Export Processing Zone had been fully paid as at 31 December 2017, these works were included in the works in progress as at 31 December 2017 without being capitalized.

2.2.3 Un-reconciled Differences

Although the provision for retirement benefit obligation for the year under review as per the actuarial valuation was Rs. 24,115,267, it was shown as Rs. 25,054,316 in the financial statements. Hence, an un-reconciled difference of Rs. 939,049 was observed in audit.

2.2.4 Accounts Receivable and Payable

Accounts Receivable

The following observations are made.

(a) The dues from BOI approved enterprises as at 31 December 2017 amounted to Rs.594,291,216 and out of this, an amount of Rs. 279,622,328 or 47 per cent had remained outstanding for more than two years. Further, provision for impairment on dues from BOI approved enterprises had represented 59 per cent of the total dues as at the end of the year under review.

(b) Annual fees receivable as at 31 December 2017 was amounted to Rs. 252,766,237 and out of this, a sum of Rs. 156,034,986 or 62 per cent had remained outstanding for over four years. In the meantime, a provision for impairment of Rs. 221,713,312 had been made during the year under review thereon and it representing 88 per cent of total dues as at 31 December 2017.

Further, out of total provision for impairment annual fee receivables, a sum of Rs.201,646,285 or 91 per cent had represented dues from 529 cancelled projects, 151 closed down projects and 75 operation suspended projects.

Out of total provisions for impairment of Rs. 349,670,032 made in the year under review, a sum of Rs. 262,358,801 or 75 per cent representing the impairment made for cancelled closed down and operation suspended projects as at 31 December 2017.

(c) A sum of Rs.1,604,200 receivable from a private company which was the auctioneer of Wathupitiwala Housing Units had remained unrecovered for over seven years and no evidence made available to prove the existence of an agreement between the company and the Board.

(d) A cash shortage of Rs. 507,650 shown under other receivables remained unchanged for over fourteen years.

(e) Out of total other receivables amounting to Rs.281,357,610 as at 31 December 2017, an amount of Rs. 253,346,759 or 90 per cent represented dues from Government Ministries and Statutory Boards. It was further observed that an outstanding balance of Rs. 37,680,103 receivable from government institutions had not been recovered over 4 years. Details are shown below.

Name of the Institution	**Amount due as at 31 December 2017**
	Rs.
Janatha Estate Development Board	37,412,573
Ministry of Foreign Affairs	141,950
Sri Lanka State Plantation Corporation	125,580
Total Amount	37,680,103

The receivable amount from Janatha Estate Development Board had remained unchanged for over ten years. However, a 100 per cent provision for impairment on outstanding balances from Government institutions for over four years had been made in the financial statements since failed to recover these balances even up to 31 December 2017.

(f) Out of total irrecoverable staff loan balance of Rs. 5,766,335 as at 31 December 2017, a sum of Rs. 3,202,582 or 55 per cent had remained unsettled for over 4 years.

Accounts Payables

The following observations are made.

(a) Sundry creditors aggregating Rs. 5,913,789 had not been settled for over 3 years.

(b) Out of retention money totaling Rs.24,405,234, an amount of Rs.7,897,111 or 32 per cent related to 16 contracts had remained unsettled for more than three years.

(c) Receipt in advance aggregating Rs. 10,313,595 had remained unchanged for more than three years. No proper actions had been taken in this regard.

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

Instances of non-compliance observed in audit are given below.

	Reference to Laws, Rules and Regulations etc.	Non – Compliances
(a)	Section 11 of Finance Act, No. 38 of 1971	The Board had invested a sum of Rs. 6,807.75 million as at 31 December 2017 without the approval of the appropriate Minister after obtaining the concurrence of the Minister of Finance.
(b)	Financial Regulations 770 (2) of the Government of the Democratic Socialist Republic of Sri Lanka	Fixed assets costing Rs. 3,113,255 had been disposed during the year under review without the approval of the accounting officer.
(c)	Government Procurement Guidelines 2006.	The Board had organized an exhibition in the theme of "BOI's contribution to development of Sri Lanka and paid Rs.7,630,000 for two private companies without following the procurement procedure

2.4 Transactions Not Supported by Adequate Authority

The following observations are made.

(a) It was observed that the Board had paid 7 allowances totaled Rs. 512,809,119 to its staff after obtaining only the Board approval without being obtained proper approvals in terms of provisions in Section 13 (2) (b) of the Board of Investment Act No. 04 of 1978 and Public Enterprises Circular No. 95 of 14 June 1994.

(b) The directions of the Minister or the approval of the Department of Management Services and recommendation of the Salaries and Cadre Commission had not been obtained for the computation of Key Performance Payment (KPP) as requested by Management Services Circular No. 39 of 26 May 2009.

(c) The Board had paid an annual bonus of Rs.58,649,750 for the year 2017 at a rate of Rs. 45,000 or one month salary whichever is higher for permanent employees and Rs.45,000 for casual and contract basis employees in contrary to the Public Enterprises Circular No. PED 03/2017 of 11 December 2017. Hence, an overpayment of Rs. 41,302,250 made as bonus in the year under review.

(d) The employees of the Board enjoy three categories of loans with zero interest rate and seven categories of loans with an interest rate of 4.2 per cent. The following observations are made in this connection.

(i) The staff loan scheme is included in the Human Resources Policy Manual of the Board and is being implemented since the year 2007 under the approval of the Board of Directors. The approval of the Department of Public Enterprises had been requested by the Board for this Manual in the year 2014. However, the loan scheme is being implemented without the approval of the Department of Public Enterprises and the balance of staff loans as at 31 December 2017 was Rs.724,855,208.

(ii) In addition to the above, a housing loan scheme for employees of the Board had been introduced with effect from 09 August 1994. Accordingly, an employee who has obtained a loan from a public or private bank or a lending institution for any housing purpose is granted reimbursement of the deference between the actual annual interest on the loan and 4.2 per cent subject to a maximum of 20.5 per cent. A sum of Rs. 42,122,777 had been reimbursed for the above loan scheme within the year under review without the approval of the Department of Public Enterprises.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Board for the year ended 31 December 2017 had resulted in a pre- tax net surplus of Rs.827,183,067 as compared with the pre- tax net surplus of Rs.768,128,696 for the preceding year, thus showing an improvement of Rs.59,054,371 in the financial results for the year under review. Increase of revenue and finance income by Rs.106,717,261 and Rs.114,654,560 respectively as against the increase of total expenses by Rs.162,317,450 with compared to the previous year were the main reasons attributed for this improvement in the financial results.

4. Operating Review

4.1 Performance

Progress of achieving the main objectives of the Board for the year under review is as follows.

(a) Progress of the BOI Projects

The progress of BOI Projects performed under Section 17 of the BOI Law for the year under review and five proceeding years are given below.

Year	Number of Projects for which Agreements Signed (New Agreements and Expansions)	Number of Projects Commenced the Commercial Operations (New Agreements and Expansions)	Number of Projects Suspended	Number of Projects Closed down	Number of Projects which Agreements Cancelled
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2017	103	66	7	7	148
2016	185	73	7	10	78
2015	157	100	5	27	23
2014	160	101	0	15	56
2013	147	108	3	16	122

The following observations are made.

(i) Number of agreements signed in the year under review had been decreased by 44 per cent as compared with the previous year.

(ii) A significant decrease in number of projects commenced the commercial operations during the period from 2013 to 2017 is observed.

(b) Attracted Foreign Direct Investments

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Attracted Foreign Direct Investments (FDI) during the period from 2013 to 2017 is given below.

Year	Annual Target as per Corporate Plan 2014-2016 and 2017-2020	Actual	Actual Achievements as a percentage of the Annual Targets
	US$ Million	US$ Million	
2017	1,000	1,710	171
2016	5,000	801.00	16
2015	3,500	969.66	28
2014	2,500	1616.26	65
2013	1,391	1391.40	100

According to the Corporate Plan for the period of 2017-2020, the annual target of attracting Foreign Direct Investments (FDI) for the year under review had been set out in an abnormal manner and it was only 20 per cent as compared with the target for the previous year. Hence, a significant increase in actual achievements for the year under review was shown.

4.2 Management Activities

The following observations are made.

(a) As a result of insufficient water supply of the National Water Supply and Drainage Board and tube well of Watupitiwela Export Processing Zone, the required water for Enterprises had been supplied by the Board by using hired bowsers. Accordingly, the cost per $1m^3$ of water was Rs. 395 during the year under review. However, the Board had charged only Rs. 75 per $1m^{3}$ of water supplied to the Enterprises. Hence, a loss of Rs. 5,280,320 had been sustained to the Board. Nevertheless, the Board had not introduced a proper mechanism to minimize the loss even up to 30 June 2018.

(b) Fifty nine premises of Seethawaka Export Processing Zone, Koggala Export Processing Zone and Katunayaka Export Processing Zone with an extent of 53,667 square feet had been leased out to the external parties for an annual rent of Rs.17,207,076 without entering into written agreements.

(c) It was observed that the Board had not taken actions to formulate and regularize the policy to revise the BOI fees and charges and to assure that all its revenue is earned properly. As a result, the Board has to bear the loss of revenue to be earned. The following observations are made at the audit test check carried out in this connection.

(i) The BOI fees and charges are recommended by the Rate Committee of the Board and approved by the Board of Directors. After that these are published in the Government Gazette. However, in most instances, the proposed fee or charge is decided by adding some amount to the existing fee or charge by the Rate Committee or the revised fee or charge is proposed by the Head of the relevant Export Processing Zone and it is recommended by the Rate Committee. However, the method of deciding the amount added to the existing fee or charge or the base used for revision of fee or charge was not made available for audit.

(ii) A part of the ground floor of the administrative building at Seethawaka Export Processing Zone has been rented out to the Bank of Ceylon since the year 2003. A rate of Rs. 30 per square feet had been charged for the period of 2003-2014 and it was revised as Rs. 45 per square feet from 01 January 2016. However, the base used for determine the rent was not submitted to the audit. Further, it was revealed that, the Board had not entered into an agreement with the Bank of Ceylon in this regard.

(iii) The lease rental of 15 trade stalls at Aweriwatta bus terminal and 04 trade stalls facing to the Baseline road which are owned to Katunayake Export Processing Zone had not been revised since the year 2009 for over a period of eight years even though it should be revised in every three years as per the report of the Government Valuer.

(iv) According to the written agreement entered into between the Board and a private bank branch at Kandy Industrial Park on 02 September 2004, the annual ground rent should be revised in every three years. However, it was observed that the ground rent had not been revised as per the agreement.

(d) Ceylon Steel Corporation Ltd, known as Ceylon Heavy Industries and Construction Company Ltd. had entered into an agreement with the Board on 07 May 1998 to modernize and upgrade the existing factory at Athurugiriya. Subsequently, a supplementary agreement had been entered into between two parties on 03 June 2011 to modernize and upgrade the existing factory under the Strategic Development Project Act No. 14 of 2008. The following observations are made in this connection.

(i) The company had not introduced additional range of products as agreed.

(ii) Although it was agreed to increase the existing production capacity to 250,00 MT, the production capacity of the company had not increased to 250,000 MT by 2015. Details are given below.

Year	Production Capacity (MT)
2011	78,847
2012	138,197
2013	132,765
2014	181,417
2015	169,521

(iii) Although the Board had granted relieves such as ten year tax holiday, import tax concessions, custom duty exemptions etc. to the company, the Board had failed to carryout close monitoring with regard to non-fulfillment of terms and conditions in the supplementary agreement.

4.3 Operating Inefficiencies

4.3.1 Operation of Export processing Zones (EPZ), Industrial Parks (IP) and Regional Offices

It was observed that the following Export Processing Zones had continuously sustained losses over number of years due to excessive administrative expenses.

Name of the Zone	**Pre-tax Surplus /(Deficit) for the Year**					
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
	Rs. 000’	Rs. 000’	Rs. 000’	Rs. 000’	Rs. 000’	Rs. 000’
Koggala Export Processing Zone	(12,547)	(10,903)	(47,108)	(40,781)	(14,050)	(11,775)
Wathupitiwala Export Processing Zone	(16,911)	(9,062)	(3,323)	777	(2,969)	(7,767)

Malwaththa Export Processing Park	(4,824)	0.2	(1,914)	(4,376)	(2,748)	(5,531)
Mirijjawila Industrial Park	(16,044)	(4,828)	1,256	(8,384)	6,334	0.5

4.4 Identified Losses

The Board had acquired a land at Keragala on 23 January 2004 to develop an Export Processing Zone (EPZ) and the Board had agreed to pay a monthly allowance of Rs.3,000 to Rs.6,000 for 08 terminated employees who worked in the land as labourers at the time of acquisition of the land on sympathetic ground until the land is developed as an EPZ with the intention of providing job opportunities in the industries to be set up in the zone. However, the establishment of EPZ had been delayed due to various reasons and the Board had decided to suspend the payment of allowances to those workers. As a result, 06 workers of them had made a complaint against the Board at the Office of the Assistant Commissioner of Labour by demanding their arrears amount. Finally, both parties came into an agreement for an amicable settlement of the dispute under the Industrial Dispute Act and the Board had to be deposited an amount of Rs.1,800,000 as compensation at the Office of the Assistant Commissioner of Labour, Gampaha on 12 July 2017.

4.5 Resources Released to Other Institutions

The following observations are made.

(a) In contrary 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, three employees of the Board had been released to the Ministry of Development Strategies and International Trade and incurred a sum of Rs. 4,629,590 as salaries and overtimes for the year 2017.

(b) The vehicle bearing No. 64-5315 which was owned to the former Ministry of Policy Planning and Implementation is being used by the Board over a period of 10 years. However, the Board had not taken action to take over the vehicle to the Board even up to 31 December 2017. The Board had incurred a sum of Rs.290,610 as maintenance cost of the vehicle during the year 2017.

(c) Twelve vehicle parking passes for parking facilities at the World Trade Center had been provided to the Ministry of Development Strategies and International Trade by the Board for the year under review and a sum of Rs.720,000 had been spent thereof. However, The Board had failed to reimburse this expenditure from the Ministry even up to 31 December 2017.

(d) Fixed assets of the Board with a cost of Rs.3,823,250 had been released to the Ministry of Development Strategies and International Trade, without obtaining proper approval.

4.6 Human Resources Management

The following observations are made.

(a) Sixty four (64) Management Assistants (Non-Technical) and hundred and twenty six (126) Primary Level Employees are in excess as compared with the approved cadre as at 31 December 2017 as result of recruiting ninety six (96) employees on contract basis and hundred and three (103) employees on casual basis without considering the actual human resources requirements of the Board. Further, prior approval from the Department of Management Services had not been obtained for these recruitments.

(b) Nine (09) managerial level posts had been filled on acting basis as at 31 December 2017. Further, according to the Finance Circular No. 124 of 24 October 1997 of the Ministry of Finance and Planning, covering up duties of a vacant post should be limited to a period of 03 months, 08 officers had been assumed for cover up duties of the vacant posts for a period ranging from 06 months to 51 months as at 31 December 2017.

(c) A succession plan for the future human resources requirements had not been prepared by the Board even as at 31 December 2017.

5. Achievement of Sustainable Development Goals

All government institutions should carry out their duties according to the “Agenda” 2030 of the United Nations as agreed by the members of the United Nations in the month of September 2015. Accordingly, the Board had identified the Goals No. 08, 09 and 17 as related to its day to day activities. However, the targets together with milestones in achieving those targets, and indicators for evaluating the achievement of such targets had not been set out by the Board.

6. Accountability and Good Governance

6.1 Action Plan

The following observations are made in connection with the Action Plan prepared for the year 2017.

(i) Action Plan had not been prepared in line with the Corporate Plan of the Board.

(ii) Outputs or indicators had not been set out as enable to measures the progress of the paned activities.

(iii) Thirty one activities and thirty six activities with the allocation of Rs. 219.65 million and Rs. 155.3 million respectively which planned to complete during the year 2017 had not been completed or commenced during the year as scheduled in the Action Plan.

6.2 Environment and Social Responsibility

The following observations are made in connection with the impact on the environment from the activities of the Board.

(i) An apparel industry in Seethawaka Export Processing Zone and the Seethawaka Export Processing Zone are being operated since April 2013 and 31 December 2010 respectively without obtaining the Environment Protection License due to non-comply with the standards of the Central Environmental Authority.

(ii) According to the field inspection carried out in the Seethawaka and Biyagama Export Processing Zones on 06, 09 and 19 of July 2018 the following observations are made.

- An environment friendly mechanism for disposing the factory waste had not been introduced. Hence the solid waste of the factories is dumped in an open area within the Zone in a way of harmful to the Environment.

- Treated water of the Seethawaka Export Processing Zone is released to a pond situated near the waste water treatment plant. However, as a result of overflow of the treatment plant in the rainy periods, the waste water is mixed with the treated water of the pond and passed to the river.

6.3 Procurement Plan

Although the Master Procurement Plan had been prepared by the Board for the year 2017, it had not been approved by a responsible officer and the following observations are also made in connection with the Procurement Plan prepared as per Procurement Guidelines 2016.

(i) Procurement activities envisaged at least for a period of three years had not been listed in the Master Procurement Plan According to Guideline 4.2.1 (b).

(ii) The Master Procurement Plan had not been regularly updated at intervals not exceeding six months according to Guideline 4.2.1 (e).

(iii) At the sample audit check carried out, it was revealed that Procurement Time Schedule for 28 procurement activities out of 31 activities carried out during the year 2017 had not been prepared and 03 procurement activities for which the Procurement Time Schedules had been prepared were not complied with Guideline 4.2.2 (b).

(iv) Hundred and ninety six procurement activities completed during the year had not been included in the Master Procurement Plan.

(v) Twenty one procurement activities with an estimated cost of Rs. 272.63 million planned to perform during the year 2017 had not been completed during the year.

6.4 Delayed Projects

The initial concept for construction of Proposed Main Entrance Building at Seethawaka Export Processing Zone had been formulated in the year 2011 in order to accommodate container checking and basic facilities for security and custom staff. This activity had been included in the Master Procurement Plan and scheduled to complete as at 31 December 2017 as well as it was included in the Action Plan of the Board for the year 2017. Although the investors, service providers and employees are facing difficulties in the absence of proper building at main gate, the construction of the proposed building was delayed up to the end of the year under review.

6.5 Budgetary Controls

Significant variations were observed between the budgeted and the actual figures, thus indicating that the budget had not been made use of as an effective instrument of management control.

6.6 Unresolved Audit Paragraphs

(a) The Board had granted permission to investment companies 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 observations are made in this connection.

(i) Some of companies ended up with liquidation by defaulting loans obtained from financial institutions.

(ii) The Board had to bear the loss of depriving the land value, opportunity cost of idling land and dues to be receivable to the Board due to unsettled issues relating to mortgaged properties.

(iii) The Perth Estate in Maputugala, Horana had been leased out to Vidyodaya Ayuuvedic Medical College Pvt. Ltd. The said property had been mortgaged to the People's Bank thereby obtaining a loan amount of Rs. 5 million. Furthermore, a tripartite agreement had not been entered into in obtaining the said loan. The property had been acquired by the bank on 12 May 2013 due to failure in paying the loan, and it had been decided to sell the property in public auction. Although a new investor had agreed to purchase the leased property in the year 2014, an agreement had not been entered into between the Board and the new investor even up to 31 May 2018.

(b) The Board had purchased the Perth Estate and a part of the estate had been handed over to the Sri Lanka State Plantation Corporation (SLSPC) for a period of 5 years from the year 1999 for management. Subsequently, it had been extended up to 08 December 2006.

The following observations are made in this connection.

(i) According to the financial statements presented for the year 2006, the total amount receivable from Sri Lanka State Plantation Corporation relating to the Perth Estate amounted to Rs.16.47 million. However, the Board had not identified and reported the correct amount receivable from the Sri Lanka State Plantation Corporation even up to 31 December 2017.

(ii) Motor vehicle rent and bungalow rent amounting to Rs.12.42 million had been irregularly transferred to the contractor’s account through the current accounts.

(iii) Although the extent of the land purchased by the Board from the Sri Lanka State Plantation Corporation was 1563 acres 0 roods 24.74 perches, according to the survey report, the extent of the land owned by the Board of Investment was 1435 acres 3 roods 25.03 perches. Accordingly, the difference of 127 acres 0 roods 39.71 perches had been identified by the Board, whereas the Board has not taken action up to 31 December 2017 to take over the said extent of lands.

(c) A private company was entered into an agreement with the Board 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 textiles. On 05 November 1992 the Board had terminated the agreement and requested investing company to transfer all buildings and machineries thereon to the Board with the agreed compensation. Since the Board had failed to pay compensation as agreed, the matter was referred to the Sri Lanka National Arbitration Centre and the award was made on 07 August 2000 to pay a sum of Rs. 23, 835,535 as full and final settlement. Upon payment of the said sum, the enterprise filed an application 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 Board. As per the judgment delivered by the High Court on 14 May 2012, the Board was liable to pay Rs.102,138,350. On 22 December 2014 the Registrar of the Commercial High Court has given an order to seize BOC account bearing number 1431688 for the amount of Rs.102,138,350 since the Board failed to comply with the High Court decision. However, on 01 January 2015 an amount of Rs.102,138,350 had been deposited by the Board in a bank account of the High Court. The Board filed a case against the judgment and the case was in progress even as at 31 December 2017.

(d) The Board had terminated an employee of the Board on several malpractices and the employee filed a case in the Labour Tribunal Colombo, against the decision of termination. As per the order delivered by Labour Tribunal the Board had to deposit Rs.3,627,900 as compensation at the Labour Tribunal Colombo on 22 August 2016. Thereafter, the Board had appealed against the judgment given by the Labour Tribunal Colombo and the case is in progress even as at 31 December 2017.

(e) According to the Cabinet Decision No.12/356/504/045 dated 22 March 2012, the approval was granted to transfer a land with an extent of 818 acres at Sampoor, Trincomalee to the Board to develop a heavy industrial zone. The land was granted to the Board by then President of Democratic Socialist Republic of Sri Lanka on free of charge. The Board had granted approval to release funds up to a sum of Rs.347,130,000 to the Divisional Secretary, Muthur for the construction of 1218 houses for relocation of families who have been affected due to the acquisition of the land. Accordingly, a sum of Rs.20,000,000 had been paid to the Divisional Secretary, Muthur as a part payment on 01 August 2014. However, the land granted to the Board for the project had been revoked by a notice published in the Gazette Extraordinary No. 1913/19 of 07 May 2015. The Board had not taken action to recover the amount paid from responsible parties even up to 31 December 2017.

(f) A land named Maliduwakanda Estate with an extent of 122 acres 01 roods 27.4 perches, purchased by the Board on 23 January 2004 at cost of Rs. 97,937,000 had not been utilized for any purpose up to the end of June 2018. According to the fixed asset register, the book value of this land as at 31 December 2017 was Rs.100, 800,000.

(g) The balance of Tsunami Relief Fund and funds received for Commonwealth FDI Promotion amounting to Rs.1,163,958 and Rs. 917,160 respectively remained unchanged even up to the end of the year under review without being utilized for intended purposes.

(h) The proposal of improvements to Common Sewage Treatment Plant at wathupitiwala Export Processing Zone was made in the year 2009. Accordingly, it was decided to increase the capacity of the plant from 400 m^3 per day to 650 m^3 per day. On 14 May 2016, the company which provides the maintenance service of the treatment Plant had informed the Board that increasing of plant capacity to meet the waste water discharge volume is very much essential as the insufficient capacity of the plant has heavily affected to the smooth operation and maintenance of treatment plant and high priority should be given to meet the treated waste water quality standards of the plant outlet. The Technical Evaluation Committee had been appointed on 03 August 2016. However it was observed that the project had not been completed even up to 31 May 2018.

(i) Committee On Public Enterprises (COPE) held on 05 May 2017 had directed the Board to take steps to create an incentive payment system in consistent to their contribution to the performance of the institute as cost of the staff has been increased compared to the total cost. However it was observed that the Board had not followed the COPE direction.

7. Systems and Controls

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

Areas of Systems and Controls	Observations
Control over Personnel Emoluments	The Board had not taken proper approvals for staff allowances such as professional allowances, monthly transport allowances and Key Performance Payments etc.

Collection of Dues from Enterprises	As the several procedures had been followed by the Board, it has been unable to recover the outstanding balances from BOI approved enterprises.
Procurement Planning	The procurement plan had not been made use of as an effective instrument of management control.
Accounting	The Board has no proper mechanism to classify its properties correctly.