

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Export Development Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. In accordance with the Article 154 (6) of the Constitution, 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 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

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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**

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

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

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

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

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

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

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

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

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

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

## **1.5 Audit Observations on the Preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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

### **1.5.2 Non Compliance with Sri Lanka Accounting Standards**

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<b>Non-compliance with the Reference to particular Standard</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a) According to the Sri Lanka accounting standard 19, the present value of the defined benefit obligation should be shown in the calculation of the gratuity provisions payable while Board should consider all actuarial gain and losses in comprehensive income statement. But Board had not been calculated gratuity provision	Board will obtain specialist support to calculate actuarial Gain and losses in the calculation of gratuity provisions while preparing accounts since the year 2021	Action should be taken according to the Sri Lankan accounting standard no 19.

according to the Sri Lanka accounting standard 19 in review year.

- (b) According to Sri Lanka Accounting Standards 19, differences of actuarial gain and losses of comprehensive income which should be considered as part of other comprehensive income in the occurred period but the Board had not considered it accordingly.
- Board will obtain specialist support to calculate actuarial gain and losses in the calculation of other comprehensive income while preparing accounts since the year 2021
- Action should be taken according to the Sri Lankan accounting standard no 19

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the management	Recommendation
(a) The amount of Rs 2,482,492 which is more than 5 years debtor balances included in the other debtor balances of Rs 6,167,225 as at 31 December 2020. Although the recovery is uncertain, the impairment had not been made.	Because of not having relevant source document to write off overseas travel advance payment of Rs. 50,702 and due to refusing Rs. 2,323,225 to pay by Sola Green Plantation Group, judicial actions will be taken	Impairment should be done to recover suspense balance.
(b) Under the Uva Paranagama Export Production Village, the debtor balance of Rs 10,403,683 was outstanding from 2009. Although it remains 10 years, the recovery is uncertain and the impairment had not been made.	Uva Paranagama Production Village Program is in inactive status and old ledger records regarding the balance are on checking.	Have to do impairment by identifying suspense balance that unable to confirm and recover.

## 1.5 Accounts Receivable and payable

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### 1.5.1 Receivables

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Audit Observation	Comments of the management	Recommendation
The debt balance of exporters outstanding from 2009 was Rs. 40,213,508 as at 31 December 2020. While the impairment had been made for the full amount, Only Rs 49,000 had been recovered for the reviewed year .	Due to the pandemic situation prevailed in last year companies who did the payments had informed us about the difficulties to pay money for them . According to that only a small amount of money could be able to recover by the board . Therefore only several companies are still paying money because of most of the companies are currently in inactive status and owners of some companies were dead or left from the country . To take legal steps for some of the companies were referred to the mediation board .	Have to take immediate necessary actions by exactly identifying unrecoverable balances .

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a surplus of Rs. 74,011,899 and the corresponding surplus in the preceding year amounted to Rs. 66,745,210. Therefore an improvement amounting to Rs. 7,266,689 of the financial result was observed. The reason for the improvement is that the profit Rs. 70,784,699 arises from the investment in Associate Company.

### 2.2 Trend Analysis of major Income and Expenditure items

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

- (a) The profit share earn by investing at the board associated company DHPL was by 27 percent and the EDB e- market place income was by 206 percent had grown compare with the previous year
- (b) Contribution by exporters for the development activities were deducted by 49 percent and seminar , course fees were deducted by 63 percent for the year under review compare with the previous year .
- (c) The Export Development Expenditure of the Board had decreased by 67 percent in the year under review as compared to the previous year.

### 3. Operational Review

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#### 3.1 Uneconomical Transactions

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Audit Observation	Comments of the Management	Recommendation
<p>In the DHPL building, the board has 41 percent of capital ownership, has 5 floors on the 5th, 6th, 7th, 8th and 9th floors of the building, maintain their head office in the area of 44,990 square feet and the rent was Rs 1655 for a square feet so the total rent for the year under review was Rs 74,460,000. The rent agreement is renewed for every two years, where the annual rent was increased is Rs. 6,960,000 in 2019/2020 higher than 2018 and Rs. 8,214,000 amount had been increased in 2021/2022 higher than 2020. Due to not having adequate provisions to pay this amount of rent by the Board annually, it was being mentioned continuously in the financial statements as the rent to be paid and the accrued rent for the year under review was Rs.74,459,700.</p> <p>Furthermore, other entities operating in the building had purchased the floors at a favourable price, but the Board had not</p>	<p>The establishment of the DHPL company to take forward steps ,legal matters on dual business agreement signed by NDB with EDB in the year 1994 are still on checking .</p>	<p>Action should be taken immediately.</p>

directed to such a favourable alternative method. Although the amount of Rs.109,365,467 profit share for the investment by the associate company, 64 percent of the profit had been paid as a rent to this company.

### 3.2 Management Inefficiencies

Audit Observation	Comments of the the Management	Recommendation
<p>The amount of Rs 105,111,477 and Rs 58,312,483 were invested in preference shares of 29 companies and the ordinary shares of 33 companies respectively which were inactive status and also closed by the board in 31 December 2020. Those companies were the companies that written off from the name registry as per the company act 487(3). Assets owned by those kind of companies could be taken over by the government but due to not mentioning a procedure to take over , Attorney General had informed to amend the company act . However due to the inability of finding these companies it's unable to take legal steps . And the impairments were allocated by the board for that .</p>	<p>Most of the companies are in inactive status</p>	<p>Suitable actions should be taken immediately after finding out assets and liabilities of inactive companies .</p>

### 3.3 Operational Inefficiencies

Audit Observations	Comments of the Management	Recommendation
<p>Rs. 34,116,693 had been spent for the program of converting 2000 entrepreneurs to exporters</p>	<p>In the program of developing 2000 entrepreneurs up to exporters , 209 small medium</p>	<p>Board has to work according to a formal plan to make the entrepreneurs up to a condition</p>

during the time period of 2017-2020. The number of entrepreneurs who gone for exports was 209 through this program and two of them had done exports only during 2018 but after that the exports have not been implemented . Only two had engaged in export activities for and about 4 years from 2017- 2020 and 31 number of entrepreneurs for 3 years , 178 for one or two years . According to the above though the expenses had been made , board was unable to achieve the target of the program .

entrepreneurs were introduced to the export market as exporters and made them succeeded. Though their first export order was succeeded majority of the small medium entrepreneurs were unable to protect the continuity of orders . That because of the local and international market situations can affect them. Export Development board continuously provides facilities to them until they being stable in the export market . The process will take a long period of time to convert all small medium entrepreneurs who identified under the program, into exporters . That because most of the entrepreneurs were at the local level then to present them for the export market it is essential to develop their capacity ( Both production and human resources )

that they could face for the foreign market competition .

### 3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved cadre and the actual cadre of the Board as at 31 December 2020 was 258 and 211 respectively and as such, there were vacancies in 47 posts comprising of 06 posts in Senior Level, 16 posts in Junior Level and 25 posts in Primary Level. Among the vacancies, the position of Additional Director General (Development), Director (Production) Director ( Export services ) were there which as directly relevant to achieve main objective of the board.</p>	<p>To fill the vacancies of Director General ,Director of Policies and Strategic Plans , Director of Local Development , Director of Export Services , the special approval of the management service department was given in writing by the letter dated 2020.06.10. Approval was given by a letter of the management service department as dated 2020.10.22 to fill the senior level vacancies existed at that time , Additional Director General ( Development ) Additional Director General ( Financial and control ) Director of Export services , Director – Information technology , Director – Industrial Products</p>	<p>Have to take immediate actions to recruit for the posts that relevant to achieve the main goals of the board</p>



immediately .Therefore since 2021.03.25 Additional Director General ( Development ) post has been filled .For other remaining three vacancies qualified candidates were invited for interviews in 2021.04.23 after calling applications . To commence a competitive exam for 1311 qualified applicants from among 2597 applications received to fill management assistant posts were referred to procurement unit . After that have planned actions to fill the junior level position too. The new 11 posts approved by the management service department in 2018.05.22 were unable to fill because of not approving the recruitment procedures