

## **Sri Lanka Export Development Board - 2021**

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### **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 2021 comprising the statement of financial position as at 31 December 2021 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 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. 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 2021, 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.

##### **1.2.1 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.

#### 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 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 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 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 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
(a) Sri Lanka Accounting Standard 16		
(i) Even though, the Property, Plant and Equipment should be revalued once in every 05 years according to paragraph 34, the value of the Property, Plant and Equipment used by the Board had not been revalued after the year 2013, thus the fair value of the Property, Plant and Equipment was not shown in the financial statements.	Actions are being taken in the year 2022 to do the revaluation of the Motor cars only, with the consideration about the quantification of the value which has relatively higher. It is not economically viable to do the revaluation of other assets since the physical existence of those assets are being verified by the annual asset verification.	Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.
(ii) Even though, the effective life for Non-Current Assets had not been reviewed annually according to paragraph 51, the cost of Motor Cars valued at Rs. 42,139,250 which were fully depreciated, but continued to be in use. The estimated error which had been arisen had not been properly revised according to Sri Lanka Accounting Standard 08.	Actions are being taken in the year 2022 to do the revaluation of the Motor cars only, with the consideration about the quantification of the value which has relatively higher. It is not economically viable to do the revaluation of other assets since the physical existence of those assets are being verified by the annual asset verification.	Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.

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| <p>(b) According to Sri Lanka Accounting Standard No. 19, the present value of the defined benefit obligation should be shown in the calculation of the Gratuity Provision and for that purpose all lifetime gains and losses should be considered in the comprehensive income statement. However, in allocating Rs.9, 196,815 for the Gratuity Provision for the year under review, the corresponding calculations were not performed.</p> | <p>The Board will seek expert assistance to calculate the Gratuity Provision with the consideration for calculation of lifetime gains and losses in preparation of accounts from the year 2022 onwards.</p> | <p>Actions should be taken according to Sri Lanka Accounting Standards.</p> |
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## 1.6 Accounts Receivable and Payable

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### 1.6.1 Cash Receivables

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Audit Observation -----	Management Comment -----	Recommendation -----
<p>(a) The balances of loan given to exporters by the Board as at the end of the year under review was Rs. 38,805,509 and out of which Rs. 37,609,509 were 23 year loan balances and Rs. 1,196,000 were 15 years old loan balances. However, the Board had not been able to recover the said loan balances even by the end of the year under review.</p>	<p>A committee comprising of three officers was appointed on 02 December 2021 on the advice of the Audit Committee, to investigate and recover the unpaid loan balances given to the exporters. Further Rs. 408,000 had been recovered in the year 2021 and Rs. 471,500 had been recovered by 25 April 2022 respectively.</p>	<p>Definite un-recoverable debt balances should be identified and necessary actions should be taken without delay.</p>
<p>(b) The amount of Rs.10, 403,683 which was rendered to Uva Paranagama Export Production Village (UPEPV) Company, had been remained and shown in the accounts for a period of 12 years from the year 2009 and the Board could not be able to recover the total amount or a part of it.</p>	<p>The Uva Paranagama Production Village Program is currently in an inactive stage. However, due to the deficiencies in the information related to it, no amount had been collected so far and appropriate actions will be taken to obtain necessary information, while working with the Uva Paranagama Export Production Village Company, on the advice of the Audit Committee.</p>	<p>Necessary actions should be taken to recover the money, with the recommendations and guidance of the Audit Committee.</p>

**2. Financial Review**

**2.1 Financial Results**

The operating result for the year under review amounted to a surplus of Rs. 212,526,203 and the corresponding surplus in the preceding year amounted to Rs. 74,011,899. Therefore it was observed that, an improvement of Rs. 138,514,304 in the financial results. The main reasons for the improvement are an increase in the profit by Rs. 52,639,028 from the investment made in the Associate Company and the funds received from the Treasury amounted to Rs.122,655,109.

**3. Operational Review**

**3.1 Management Inefficiencies**

**Audit Observation**

**Management Comment**

**Recommendation**

(a)The Board had invested an amount of Rs. 56,332,354 in ordinary shares of 34 companies as of 31 December 2021 and out of which, only 23 companies with an invested value of Rs. 36,271,994 had remained operational as of 31 December 2021. Further, Rs. 40,345,573 had been received as dividends, only from 02 companies out of the 23 active companies for the year under review.

Most of the companies which are in operational level had not declared dividends, as they are running at a loss. However actions will be taken to nominate representatives from the Board to the relevant companies, to look in to the benefits to be received to the Board from those companies. Apart from DHPL, the officials from the Board had already been appointed to the Director Board of another four companies. Actions are being taken to assign officers to look into the benefits to be received to the Board, which do not have the opportunity to appoint representatives for such companies.

Actions should be taken to get the benefits receivable from the investments made by the Board.

(b)The Board had invested an amount of Rs. 105,117,478 in redeemable preference shares of 29 companies as of 31 December 2021 and out of which, only 16 companies with an invested value of Rs. 81,877,780 had remained operational as of 31 December 2021. However, no dividends had been received from the

Among these companies, the actions are being taken by the Board, to investigate the financial and operational status of the companies that are in a profitable state and the ability to receive dividends to the Board in the future.

Actions should be taken to get the benefits receivable from the investments made by the Board.

investments on the above active companies for the year under review

### 3.2 Idle or underutilized Property, Plant and Equipment

----- <b>Audit Observation</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>The total floor area with 14,097 square feet in the 5th, 6th, 7th, 8th and 9th floors of the DHPL building, was acquired by the Board on a rental basis. The following observations are made according to the audit test checks done on the usage of the building and payment of rent.</p>		
<p>(i) Two spaces of the building with a floor area of 120.96 and 178.25 square feet on the 09th floor, was given for occupation on an agreement to two private organizations without charging rent, and after the expiry of the said contractual period, commencing from 10 December 2019, those chambers remained idle without any productive use.</p>	<p>According to the powers enforced by Section No.12 (1) of the Export Development Act No.40 of 1979, a space provided to Lanka Rubber Global Consortium (pvt) Ltd. and Sri Lanka Institute of Nano Technology (SLINTEC) for a short period of time with the approval of the Management, to achieve their goals. The aforesaid companies were unable to function within the premises of the Export Development Board, because of the Covid pandemic, lockdown in the country and enforcement of curfew.</p>	<p>The building acquired on a rental basis, should be utilized in a proper manner</p>
<p>(ii) An area of 389.4 square feet was allocated on the 09th floor for the supervisory functions of the Board, and 508.75 square feet on the 08th floor for the establishment of the Export Services division and the Market Development division of the Board, but that space was not utilized during the year under review.</p>	<p>The Performance Monitoring Unit had been established in 2017 with a floor area of 389.4 square feet on the 09th floor. There had been 60 vacancies in the Board as of 31 December 2020, therefore officers attached to the Performance Monitoring Unit had been temporarily transferred to Policy and Planning division. Once the</p>	<p>The rented building should be utilized in a proper manner.</p>

vacancies are filled, the said space to be utilized in the future.

The floor area of 508.75 square feet on the 08th floor is intended to be used either for the Internal Audit division or for the Record Room in future.

(iii) Accordingly, 1,197.61 square feet had remained un-utilized and the total rent paid by the Board, for the un-utilized space amounted to Rs. 6,325,776 at the rate of Rs.5, 282 per square feet during the year under review.

After filling the vacancies, this space to be utilized for the establishment of separate unit for licensing and monitoring of exporters to use intellectual property rights and brands owned by the Board and to establish new sections to study about the products that could be certified as geographical indicators and conduct market research.

The rented building should be utilized in a proper manner.

### 3.3 Human Resource Management

----- <b>Audit Observation</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>Even though the approved cadre of the Board as at 31 December 2021 was 263 and the actual cadre was 196, thus 67 positions were vacant. Among those vacancies, there were 20 Senior level positions, 10 Tertiary level positions, 21 Secondary level positions and 16 Primary level positions.</p> <p>Even in the year under review, the Board had not taken action to recruit the 05 main positions namely; the Director General, Director (Human Resources), Director (Finance), Director (Trade Facilitation and Trade Information) and Director (Information Technology), which are directly involve to achieve the main objectives of the Board.</p>	<p>Actions are being taken to fill the vacancies.</p>	<p>Actions should be taken to recruit the most important positions of the Board.</p>