

Board of Investment of Sri Lanka - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Board of Investment of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of 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 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with reference to particular Standard	Management Comment	Recommendation
(a) LKAS 16 – Property Plant and Equipment: -		
(i) The residual value and the useful life of 07 categories of assets with a written down value of Rs.4,506,692,721 as at 31 December 2019 had not been reviewed.	The residual value of a property of an item of PPE is currently obtained when the property is disposed or auctioned. This is due to the complexed structure and the integration of parts and components connected with main subcategories of the assets, and asset volume of the BOI. The Board’s existing policy on motor vehicles and computers will be reviewed during the year 2020 but the impact of the results of the review on depreciation would be negligible and not be material.	The residual value and the useful life of an asset should be reviewed at least at each financial year end and, if expectations differ from previous estimates; the changes should be accounted for as a change in an accounting estimates in accordance with LKAS 08.

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| <p>(ii) The gross carrying amount of 125 number of fully depreciated motor vehicles and 3378 number of fully depreciated computers and computer accessories included in the fixed assets register had not been disclosed in the financial statements.</p> | <p>We will take necessary action to disclose in year 2020.</p> | <p>Gross carrying amount of any fully depreciated property plant and equipment that is still in use should be disclosed in the financial statements.</p> |
| <p>(b) LKAS 40 – Investment Property: - Three land lots at Bingiriya Export Processing Zone with a cost of Rs. 15,833,204 used for investment purpose and agreements were entered into for leasing in the year 2019 had not been identified as investment properties in the financial statements for the year ended 31 December 2019.</p> | <p>Noted to adjust it in year 2020.</p> | <p>Lands used for investment purpose should be identified as investment properties in the financial statements.</p> |

1.5.2 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>(a) The expenditure amounting to Rs. 13,612,996 incurred to excavate two pits at Seethawaka Export Processing Zone to discard the sludge of the common waste water treatment plant of the Zone which cannot be considered as a capital expenditure had been included in the capital work in progress. Hence, the balance of Capital Work in Progress as at 31 December 2019 had been overstated by the same.</p>	<p>Noted to adjust it in year 2020 as a prior year adjustment.</p>	<p>Expenditure which cannot be considered as a capital expenditure should not be included in the capital work in progress.</p>

- (b) A land at Bingiriya with a cost of Rs. 96,166,796 granted in favour of the Board by Extraordinary Gazette No. 2126/12 of 03 June 2019 to develop as an Export Processing Zone had not been shown in the financial statements as a property of the Board. Hence the balance of Property Plant and Equipment as at 31 December 2019 had been understated by the same amount.
- Vesting of the land situated in Bingiriya which has been granted in favour of the Board by Extra Ordinary Gazette (No. 2126/12 of 03 June 2019) cannot be capitalized, until the Vesting Order is signed by the H. E. the President, which is still pending. Action will be taken to obtain the Vesting Order expeditiously and to take into books in the financial year 2020.
- Lands granted in favour of the Board by Extraordinary Gazette should be shown in the financial statements as a property of the Board as the Gazette is the legal document for vesting.
- (c) The initial administrative expenses amounting to Rs. 51,500,000 paid by the Board to the Divisional Secretary of Udubaddawa for the acquisition of lands for widening of a road on the request of the Secretary of the Ministry of Development Strategies and International Trade on the basis of reimbursement to the Board had not been shown in the financial statements for the year ended 31 December 2019 as a receivable from the Ministry.
- Noted to adjust it in year 2020 as a prior year adjustment.
- Expenses incurred by the Board on behalf of the external parties on the basis of reimbursement should be shown in the financial statements as receivable.

1.5.3 Documentary Evidences not made available for Audit

Description	Amount	Evidence not presented	Management Comment	Recommendation
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	Rs.			
Amortization of Deferred Expenditure				
- Relocation of BOI office	6,169,237	Confirmations for balance before 01 January 2016	BOI is not in possession of the deferred expenditure details prior to 01st January 2016. However, this issue was discussed at a previous Audit Committee Meeting and it was agreed to maintain a register for deferred expenditure and that action has already been taken by BOI.	Confirmations for balance before 01 January 2016 should be presented to the Audit.
- Deferred Zone Development Expenditure	37,500,264	Confirmations for balance before 01 January 2016		

1.6 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
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(a) The Board had paid 08 allowances totaling to Rs. 608, 822, 284 to its staff after obtaining only the approval of the Board of Directors without being obtained approval from the Minister of the line ministry in terms of provisions in Section 13 (2) (b) of the Board of Investment Act No. 04 of 1978.	Approval of the Director General for Risk Allowance and the approval of the Board of Directors for other allowances have been obtained. Hon. Minister's approval has been requested in May 2019.	Approvals of the Minister of the line ministry should be obtained.

- (b) Although the requested approval had not been granted from the Department of Public Enterprises, the staff loan scheme consisted with three categories of loans with zero interest rate and six categories of loans with an interest rate of 4.2 percent is being implemented under the approval of the Board of Directors since the year 2007 and the balance of staff loans as at 31 December 2019 was Rs. 856,887,308.
- All the Loan Schemes of the BOI were implemented from its inception with the approval of the Board of Directors and the said benefits are being enjoyed by the employees to-date. Subsequently, the said all the loan schemes were included in to the Human Resource Policy Manual of the BOI which was approved by the Board of Directors on 20 March 2007. Approval for the Human Resources Policy Manual of the BOI was requested from the Department of Public Enterprises on 10 March .2014.
- Approval for the staff loan scheme should be obtained from the Department of Public Enterprises.
- (c) An employee of the Board who has obtained a loan from a public or private bank or a lending institution for any housing purpose is granted a reimbursement of the deference between the actual annual interest rate on the loan and 4.2 percent subject to a maximum annual rate of interest of 20.5 percent under the approval of the Board of Directors. A sum of Rs. 42,410,893 had been reimbursed for the above loan scheme within the year under review without the approval of the Department of Public Enterprises.
- Approval for the Human Resources Policy Manual of the BOI was requested from the Department of Public Enterprises on 10.03.2014.
- Approval for the staff loan scheme should be obtained from the Department of Public Enterprises.

1.7 Accounts Receivable and Payable

1.7.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The dues from BOI approved enterprises as at 31 December 2019 was Rs. 725,609,535 and out of this an amount of Rs. 328,869,617 or 45 percent remained outstanding for more than two years.	Approval of the Board of Directors has been obtained to write off the dues up to year 2012 and have submitted the details to the Line Ministry to obtain approval of	Outstanding balances should be recovered without a delay.

the Treasury. Further, Executive Director (Recoveries) has been appointed to follow up on dues accumulated since year 2013. The Finance Department has been instructed to handover the Annual Fee Invoices not settled by 31st March each year, to the Recoveries Unit to follow up on the dues and to initiate action according to the terms and conditions of the Agreement.

(b) Annual fees receivable as at 31 December 2019 was amounted to Rs. 320,884,027 and out of this Rs. 188,720,430 or 59 percent had remained for more than three years.

Outstanding balances should be recovered without a delay.

(c) Provision for impairment on dues from enterprises had represented 57 percent from the total dues from enterprises in the year under review. Out of total provision for impairment of Rs. 410,118,417 a sum of Rs. 350,111,099 or 84 percent had represented dues from cancelled, closed down and operation suspended projects as at 31 December 2019.

Legal actions to recover the outstanding balances or actions according to the Financial Regulations should be taken regarding amounts identified as unrecoverable .

(d) Out of total provision for impairment of annual fee dues, a sum of Rs. 249,688,279 or 93 percent had represented dues from 788 cancelled projects, 42 closed down projects and 51 operation suspended projects.

Legal actions to recover the outstanding balances or actions according to the Financial Regulations should be taken regarding amounts identified as unrecoverable.

(e) Out of total provision for impairment of water income dues, a sum of Rs. 1,404,086 had represented dues from government institutions and

Several householders have left their places and some have rented their houses for outside parties. Therefore it is

Outstanding balances should be recovered without a delay.

beneficiaries of the Housing Schemes at Wathupitiwala and Horana. The Board had failed to recover these outstanding balances remained over three years even up to 31 December 2019.

difficult to find their correct postal address to hand over letters.

BOI has taken several actions to recover outstanding balances and legal actions will be taken if the outstanding balance are failed to be recovered.

(f) A sum of Rs. 1,604,200 receivables from a private company which was the auctioneer of Wathupitiwala Housing Units had remained unrecovered for over nine years and no any evidence was made available to prove the existence of an agreement between the company and the Board. Although several actions had been taken by the Board, it was failed to recover the receivable amount even up to 31 December 2019.

According to the Attorney General, it is stated that the prospective period for filing action has now expired and the BOI might not be successful in pursuing civil action for money recovery against the debtor. However, if an admission in respect of the dues is obtained through police statement or in response to letter of demand, it may be possible to overcome prescription and pursue legal action. Although BOI tried many times and many ways to find whereabouts of the auctioneer, all those efforts were not successful.

Actions should be taken as per Attorney General in a timely manner.

(g) An outstanding balance of Rs.37,680,103 receivable from government institutions had not been recovered over 4 years. Out of which a sum of Rs. 37,412,573 receivable from Janatha Estate Development Board remained unchanged for over twelve years. However, a 100 percent provision for impairment on outstanding balances from the government institutions for over five years had been made in the financial statements as it was failed

Amount receivable from JEDB would be set-off when JEDB property is released to BOI for a project. Secretary, Ministry of Public Enterprises and Kandy City Development agreed to look into the issue and take an appropriate decision in consultation with Janatha Estate Development Board and Sri Lanka State Plantation Corporation. Even though the Board has

Outstanding balances should be recovered without a delay.

to recover these balances even up to 31 December 2019. reminded requesting to settle other outstanding amounts, a positive response was not received from Ministry of Foreign Affairs.

- (h) Mobilization advances of Rs.7,291,354 paid by Seethawaka Export Processing Zone and Rs.6,563,247 paid by Biyagama Export Processing Zone had not been settled over a period of 2 years and 4 years respectively. The contract of Seethawaka Export Processing Zone will commence in November 2020. The contract of Biyagama Export Processing Zone was terminated and the advance bond guarantee was forfeited, whereas the construction guarantee fund did not accept the request and matter is on the judicial process up to date. Part of mobilization advance has been recovered by the interim bills. Mobilization advances should be recovered without a delay.

1.7.2 Payables

----- Audit Issue -----	Management Comment -----	Recommendation -----
(a) Sundry creditors aggregating Rs. 6,315,327 had not been settled for over 3 years.	Noted and will be reviewed & adjusted in the financial year 2020. Due to the applicability of the time bar, a creditor could make a claim within a period of 6 years. Hence, the receipts in advance are held at least for a period of 6 years before making any adjustment.	Creditors should be settled within the stipulated time period.
(b) Out of retention money totaling to Rs. 36,960,139, an amount of Rs.4,766,262 related to 29 contracts had remained unsettled for more than three years.	After obtaining concurrence from the relevant zones and departments, action will be taken to release the amounts which can be released and others will be treated as an income in the accounts.	Actions should be taken to release the amounts which can be released and others to treat as income.

Further, action has been initiated to include a new clause in the particular conditions of contract specifying that, the retention money should be claimed within six months from expiration of the defect liability period of the contract to avoid accumulating retention money without being claimed.

Also, please note that action has already been taken during year 2019 to treat unclaimed Rs. 698,770/- pertaining to 03 contracts, as income in the accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 10 (5) of the Finance Act, No. 38 of 1971	Net surplus of the year under review after the appropriations had not been remitted to the Consolidated Fund.	BOI is entrusted with development initiatives such as setting up of new Export Processing Zones under National Budget Proposals while uplifting the infrastructure facilities of existing Zones operated under the BOI and such initiatives are totally funded by the BOI. However a dividend is paid annually by the Board to the General Treasury on their request.	Net surplus of the year under review after the appropriations should be remitted to the Consolidated Fund.

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| (b) Section 11 of Finance Act, No. 38 of 1971 | The Board had invested a sum of Rs. 17,136,814,477 during the year 2019 without the approval of the appropriate Minister given with the concurrence of the Minister of Finance. | A copy of the approval granted by the Ministry has already been handed over to the Government Audit Branch on 06.07.2020 | The approval of the appropriate Minister after obtaining the concurrence of the Minister of Finance should be taken. |
| (c) Financial Regulation 104(3) and 104(4) | The preliminary reports or full reports relating to 13 vehicle accidents occurred during the year 2019 had not been submitted by the Board even up to 31 December 2019. | The vehicle accidents were very minor nature and those were occurred due to the faults of other drivers In all possible occasions BOI had made complains to nearest Police Stations. | The preliminary report should be sent immediately if a delay of more than 7 days is envisaged for making a full report and after inquiry, the full report should be submitted within 3 months from the date of loss. |
| (d) Financial Regulations No. 770 (2) of Democratic Socialist Republic of Sri Lanka | Fixed assets amounting to Rs. 20,675,543 had been disposed during the year under review without the approval of Accounting Officer. | The redundant items those were stacked in the Sir Baron Jayathilaka building were disposed to facilitate the decision of the Board of Directors. The Board has decided to lease out the entire building for a 10-year period and the Investor informed the BOI to clear and handover the building to commence the renovation of the building. Therefore, all unused/discarded items were disposed by following the procurement process. | Fixed assets should be disposed after obtaining the approval of Accounting Officer. |
| (e) Paragraph No. 06(b) of the Public Finance Circular No. 02/2015 of 10 July 2015, | Final decision on the disposal of 09 vehicles with a cost of Rs.14,250,000 had not been obtained from the CAO of the line | BOI has been disposing uneconomical vehicles in successive stages with the approval of the Board of Directors. The need of implementing cost effective | Final decision on the disposal of vehicles should be obtained from the CAO of the Line Ministry based on the |

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| | ministry based on the recommendations of the Board of Directors. | management system of the vehicle fleet was discussed and the chief accounting officer was informed on the vehicle disposal process of BOI at the audit and management committee meetings. | recommendations of the Board of Directors. | |
| (f) | Public Enterprise Circular No. PED 03/2019 of 09 December 2019 | The Board had paid an amount of Rs. 62,000 or one month's basic salary whichever is higher to all the employees of the Board as annual bonus and a sum of Rs. 80,741,628 had been paid for the year 2019 as annual bonus without the approval of the General Treasury. | The Board of Directors has granted approval to pay Rs. 60,000/- or one and half month's salary whichever is higher for the permanent employees and Rs. 60,000/- for contract employees of the BOI as the bonus for the year 2019. However, Secretary to the Ministry of Industrial Export and Investment Promotion has suggested to make bonus payments for the year 2019 as one month basic salary or Rs. 62,000 whichever is higher. Further he has stated that the approval of the Hon. Minister of Industrial Export and Investment Promotion has already been granted to adopt this interim measure. | Bonus should be paid as per the provisions of the Circular. |
| (g) | Section 02 of the Public Enterprise Circular No PED 1/2015 (i) of 27 October 2016 | Board had paid a sum of Rs.8,498,331 as drivers' allowance for 23 officers of the Board during the year under review | In the year 2003, the Board of Directors of the BOI has decided to pay Rs.15,000/- monthly allowances for a hired driver in lieu of a BOI driver. Since this payment prevailed at the same rate for 15 years, the Board has decided to increase the rate in the year 2019. | Officers should not be provided with a driver or a driver's allowance. |

- (h) Section 8.3.9 and 9.4 of the Public Enterprises Circular No. PED 12 dated 02 June 2003. Seven employees of the Board had been released to the Ministry of Industrial Export and Investment Promotion without obtaining proper approval and incurred a sum of Rs. 863,692 for the year 2019. Arrangements will be taken to recover the expenses with regard to the released employees, from the respective Ministry. Employees should not be released to the line Ministry or any other institution, without the approval of the Cabinet and the Board should not pay any emoluments to the released employee during such period.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 1,158,307,307 and the corresponding surplus in the preceding year amounted to Rs.759,093,091. Therefore an improvement amounting to Rs 399,214,216 of the financial result was observed. The reasons for the improvement are increase of revenue and finance income by Rs. 756,477,284 and Rs. 66,994,872 respectively as against the increase of total expenses by Rs.424,257,940 with compared to the previous year. ‘

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
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(a) Katunayake and Biyagama Export Processing Zones had incurred a sum of Rs. 29,455,908 for disposal of solid waste of the Zones during the year and only a sum of Rs. 22,020,647 had been charged from enterprises. As a result, the Board had incurred a loss of Rs. 7,435,261 during the year 2019 in connection with disposal of solid waste of the zones.	The loss on solid waste disposal has been compensated by the additional income earned by leasing out the land previously being used for that purpose.	The loss of disposal of solid waste should be minimized while the utilization of lands for investment is maximized.

- (b) A former Executive Assistant of the Board had suspended on 24 October 2013 without paying monthly salary on the ground that he left the country without the prior approval of the management of the Board. A charge sheet was issued to the employee after conducting preliminary investigation and the Board had terminated the employment of the said employee on 02 December 2016 without conducting a domestic disciplinary inquiry and without paying monthly earnings related to the period of suspension. The terminated employee had filed a case at the Labour Tribunal , Colombo against the Board claiming a compensation. According to the judgment, the termination was unjust and the Board had to pay a compensation of Rs. 1,300,968 to the terminated employee during the year 2019.
- According to the order of Labour Tribunal, the termination of the employment of the Executive Assistant was unjust and it ordered the Board to pay a compensation of Rs. 1,300,968/- to the employee. Accordingly, the Board of Directors has granted approval to deposit the same in the Labour Tribunal – Colombo as the full and final settlement of the industrial dispute.
- Termination of the employment should be made in a manner of justifiable.

3.2 Management Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Sixty five premises of Seethawaka, Koggala ,Katunayaka and Wathupitiwela Export Processing Zones and Kandy Industrial Park with an extent of 69,354 square feet had been leased out to the external parties for an annual rent of Rs.26,080,283 without entering into written agreements.	Agreements are in the process of being finalized.	Agreements should be entered in to without a delay.

3.3 Operational Inefficiencies

----- Audit Issue -----	Management Comment -----	Recommendation -----
<p>(a) The progress of projects implemented under Section 17 of the BOI Law for the year 2019 and four preceding years are given below.</p>		
Year	Number of Projects for which Agreements Signed (New agreements and Expansions)	Number of Projects Commenced Commercial Operations (New agreements and Expansions)
		Number of Projects Suspended, Closed down or Agreement Cancelled
		Suspended Closed Agree- ment Cancell- ed
2015	157	113
2016	186	106
2017	104	104
2018	95	91
2019	105	60

The following observations are made in this connection.

- (i) A significant decrease in number of projects which commenced commercial operations during the period from the year 2015 to 2019 was observed.

Absence of an attractive tax incentive regime from June 2016 to April 2018 resulted in the decrease in attracting investment projects. Even though a new investment incentive regime was introduced in April 2018 under the new Inland Revenue Act No 24 of 2017, the projects attracted under this scheme needs considerable time

Actions should be taken to increase the number of projects for which agreement signed. In addition, the Board should introduce a procedure to assist the investors to get the approvals from other authorities.

period to commence commercial operation. In addition, Projects get delayed to start its commercial operation due to various reasons beyond the control of the BOI, as the investors need to get various approvals such as land clearance, environmental clearance, UDA, Local Government etc. prior to commencement of operations.

- (ii) Number of projects for which agreements cancelled, was greater than number of projects which commenced commercial operations in the year 2019.
- As per the instructions of the Ministry of Finance, and the Board Decision taken to accelerate the process to identify projects which were not implemented and held up for a long period of time without realization of investments and the agreements with such projects were cancelled accordingly, as those projects blocked developed lands which can be used for new projects. This action was initially taken in 2013 and continued. As a result, the number of cancelled projects in 2015 - 2019 shows an increased value.
- The Board should take actions to reduce the cancellation of agreements and to increase the commencement of projects.

(b) Attracted Foreign Direct Investments (FDI) by the Board during the period from 2015 to 2019 is given below.

Year	Annual Target as per Corporate Plan (2014-2016 and 2017-2020) US\$ Million	Actual Achievement US\$ Million	Actual Achievements as a percentage of Annual Targets
2015	3,500	970	28%
2016	5000	801	16%
2017	1,000	1,710	171%
2018	2,500	2,367	95%
2019	3,000	1,189	40 %

The Foreign Direct Investments actually attracted by the Board during the year 2019 was only 40 percent of the target and it had decreased by 50 percent compared to the previous year.

The set target cannot be achieved all the time as expected due to unforeseen external shocks occurred which are beyond the control of BOI. The Board should set strategies to attract Foreign Direct Investments to achieve targets.

Thus, political uncertainty prevailed from October 2018 to December 2019 and Easter Sunday attack which took place in April 2019 had a serious impact on 2019 FDI performance. Further, the expected Inland Revenue amendments in April 2019 for the tax regime were not released yet, but only administrative decisions were given.

(c) 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. However, some companies had ended up with liquidation by defaulting loans obtained from financial institutions and the Board had to bear the loss of depriving the land value and opportunity cost of idling the land. Some instances are shown below.

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| (i) The Perth Estate in Maputugala, Horana had been leased out to a Ayurvedic medical institution. The said property had been mortgaged to a government bank and thereby obtained a loan amounting to Rs. 5,000,000. Furthermore, no any evidence was made available to prove the existence of a tripartite agreement to obtain 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, an agreement had not been entered into between the Board and a new investor to lease the property even up to 31 December 2019. | The bank has been looking for prospective buyers in order to transfer the leasehold rights of the land. Presently, the land is ready to be advertised for Request for Proposals from potential investors. | The land should be leased out to a potential investor to minimize the opportunity cost of idling the land. |
| (ii) A land at Mirigama Export Processing Zone had been leased out to a clothing company. The said property had been mortgaged to a private bank and entered into a tripartite agreement. The enterprise had closed the operations in the year 2011 and the leasehold rights of the property had been acquired by the bank at a public auction held on 12 July 2011 as the enterprise defaulted the loan and the arrears of the loan was US\$ 796,513 as at 28 February 2019. However, an agreement had not been entered into between the Board and a new investor to lease the property even up to 31 December 2019. | The land had been included into a paper advertisement published by the BOI recently to call bids for the vacant lands at the BOI zones. | The land should be leased out to a potential investor to minimize the opportunity cost of idling the land. |

3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
A sum of Rs. 6,001,637 had been incurred by the Board for the opening ceremony of an enterprise at Mirijjawila Export Processing Zone held on 24 March 2019. The base of spending funds of the Board for an opening ceremony of enterprise registered under the Board was not revealed to the audit.	The rationale behind the Board supporting these expenses were based on the significant value of investment and economic impact related to the projects. The expenses related to this event were approved by the Board of Directors. Ceremony was held with the participation of the Prime Minister and distinguished invitees and therefore, it was a National Event.	Expenses of the opening ceremonies of enterprise registered under the Board should not be incurred by the Board.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Eighty two number of inventory items in Seethawaka Export Processing Zone with a cost of Rs. 10,007,186 had not been used for more than five years period.	Those items have not been used for more than 5 years period and action will be taken to auction those items with the approval of the management.	Only essential items should be purchased and assets should be utilized without keeping idle.

3.6 Delayed Projects

Audit Issue	Management Comment	Recommendation
(a) The Board had not taken actions to complete 14 projects of 05 Export Processing Zones and the head office commenced during the period from 2004 to 2015 and for which a sum of Rs. 605,950,756 had been incurred as at 31 December 2019.	Some projects are not completed and some projects have been terminated and issues have to be resolved. Actions will be taken to finalize the projects expeditiously in the year 2020	Continuous follow up should be made and the projects should be completed within the stipulated time period.
(b) The contract of replacing Filter Media of Rapid Sand Filters (06 Nos.) of the water treatment plant of Seethawaka Export	National Water Supply and Drainage Board has verbally informed that that there are two separate tenders to supply and	projects should be completed within the stipulated time period.

Processing Zone with the purpose of ensuring the quality of water and uninterrupted water supply to the investors of the Zone had been awarded to the National Water Supply and Drainage Board on 27 June 2017 at a price of Rs.16, 040,980. A sum of Rs. 7,291,354 had been paid as an advance payment on 31 July 2017 and the due date of completion of the contract was 23 August 2018. However, this contract had not been completed even as at 13 February 2020.

delivery of Anthracite and to rehabilitate the filters. Both these tenders have been closed and now those tenders are at awarding stage.

3.7 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>(a) One Executive Director, twenty Management Assistants - Non-Technical and hundred and eleven Primary Level -Unskilled employees are in excess to the approved cadre as the Board had recruited number of employees on permanent, casual and contract basis during the previous years without considering the limits of the approved cadre.</p>	<p>Considering the exigency of service, the appointments were made for three posts of Executive Director with the approval of Board of Directors. Therefore, the count of Executive Directors has exceeded the approved cadre. In addition, all the excess employees in the Management Assistant Category and Primary Level Unskilled Category are Casual/ Contract basis employees who were absorbed into the permanent cadre as per the Public Administration Circular No. 29/2019 dated 18.09.2019.</p>	<p>The human resources requirements of the Board should be considered in case of recruitment of employees.</p>
<p>(b) Out of 529 managerial level employees of the Board 120 employees will complete 60 years of age and retire within next five years. However, a succession plan for the future human</p>	<p>Management is of the view that the succession plan should be prepared by a professional body or an individual with experience and special expertise in the particular area. Accordingly, the process of preparing a Succession</p>	<p>A succession plan for the future human resources requirements should be prepared without a delay.</p>

resources requirements had Plan is in progress.
not been prepared by the
Board even as at 31
December 2019.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
Hundred and one activities with an allocation of Rs.6,764.8 million planned to complete during the year according to the Action Plan of the Board for the year 2019 had not been completed as scheduled.	Some of activities have been completed up to date and others are in progress due to various reasons.	Activities planned to complete during the year should be completed as scheduled.

4.2 Environmental Issues

Audit Issue	Management Comment	Recommendation
(a) Seethawaka, Horana and Koggala Export Processing Zones for which the Environment Protection License (EPL) is required to obtain for operations were being operated without obtaining Environment Protection License for a period from 02 years to 08 years as at 31 December 2019 due to non-compliance with the standards of the Central Environmental Authority.	Central Environmental Authority conducted the inspection regarding the Environment Protection License of Koggala Export Processing Zone and awaiting the response of Central Environmental Authority. Common wastewater treatment plants in Seethawaka and Horana Export Processing Zones, require augmentation/ improvements and currently being attended. However, this will take about 02 years period and it is the only criteria to be fulfilled for the EPL.	The Board should take actions to obtain Environment Protection License for Zones without a delay.
(b) A hazardous waste generated by the production process of enterprise at Horana Export Processing Zone is being collected within the factory	The approved disposal method for this type of hazardous waste available in Sri Lanka is co-processing. Presently, one and only company of Sri Lanka which	An effective mechanism to dispose the waste in an eco-friendly manner should be introduced without a delay.

premises over a period of four years as the enterprise has no effective mechanism to dispose the waste in an eco-friendly manner.

the co-processing of such hazardous waste is carried out is assessing the compatibility of the wastes. Until such time this hazardous waste is currently being stored within the premises in an environmental sound manner.