

Paddy Marketing Board – 2018

1.1 Disclaimer Opinion

The audit of the financial statements of the Paddy Marketing Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 the Financial Act No. 38 of 1971.

As a result of the importance of the facts discussed in the Section of Basis for Disclaimer of Opinion of this report, I do not express an opinion on the accompanying financial statements of the Board.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion due to the importance of the facts set out 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 have not been able to find sufficient and appropriate audit evidence to provide a basis for disclaimer of 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.

1.4 Scope of Audit

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 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 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 it 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 Financial Statement

1.5.1 Internal Control over the Preparation of Financial Statements

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.

1.5.2 Non- compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Standard	Comments of the Management	Recommendation
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(a) Sri Lanka Accounting Standard 07	The officers were advised to act properly in accordance with Accounting Standards in future.	Actions should be taken in terms of Sri Lanka Accounting Standards.
(i) Even though the Board had paid Rs. 11,010,650 in cashfor purchasing pallets for the year under review, a sum of Rs. 16,405,740 had been shown as pallet purchases including the outstanding balance of Rs.5,395,090 under investment activities in the cash flow statement.		

<p>(ii) Even though a sum of Rs. 63,335,231 had been paid for the work in progress in the year under review, it had been stated in the cash flow statement as cash outflow amounting to Rs.44,101,692.</p>	<p>The officers were advised to act properly in accordance with Accounting Standards in future.</p>	<p>Actions should be taken in terms of Sri Lanka Accounting Standards .</p>
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(b) Sri Lanka Accounting Standard 16

Due to not reviewing the effective life annually for non-current assets in accordance with Paragraph 51 of this Standard, even though the lorry cost at Rs. 4,654,646 had been fully depreciated by the year 2014, further being used. Accordingly, arrangements had not been taken to revise the estimated error in accordance with Sri Lanka Accounting Standard 08.

Necessary arrangements are being made totake necessary actionsas per Sri Lanka Accounting Standards after re-valuation of assets .

Actions should be taken in terms of Sri Lanka Accounting Standards .

1.5.3 Accounting Deficiencies

----- Audit observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) Although stock shortage identified by the Board in year 2018 at the stock verification valued at Rs.3,047,107,163 should be adjusted to the comprehensive income statement, as a result it had recorded under the trade debtors in the statement of financial position,the loss was understated by that amount.</p>	<p>Answers were not given.</p>	<p>It should be accounted for accurately.</p>

- (b) Although bridge scale service charges amounted to Rs. 353,190 should be accounted for as direct overhead costs, it had been taken into accounts for under administrative expenses. Actions will be taken to rectify it in future. It should be accounted accurately.

1.5.4 Unreconciled Control Accounts or Reports

Item	Value as per Financial Statements Rs.	Value according to Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
Bank Balance	153,792,930	45,000	157,747,950	Measures have been taken to obtain relevant information from the bank with regard to balance variance and to correct.	Differences should be identified and correct.
Inventory shortage Receivable from stockkeepers	6,615,555	5,903,501	712,054	An error occurred whilst the calculation of balance at first and it was reported accurately when report at later.	Differences should be identified and correct
Receivable from the Co-operative Wholesale Corporation	1,467,190,102	1,070,666,192	396,523,910	The answers were not given.	Differences should be identified and correct
Payable to the Co-operative Wholesale Corporation	1,202,897	85,711,719	84,508,822	The answers were not given.	Differences should be identified and correct

1.5.5 Lack of Evidence for Audit

	Item	Value Rs.	Evidences not Available	Comments of the Management	Recommendation
(a)	Unidentified paddy purchases	63,980,963	Detailed information Balance confirmation	The existing system needs improvement	The evidences required should be maintained for the confirmation of the values of the account items
(b)	Purchase Control Account	49,743,530			
(c)	Rice Millers (for paddy sales of credit basis)	44,399,804			
(d)	Balance Receivable from Bank of Ceylon	3,282,807			
(e)	Balance Receivable from Peoples Bank	1,691,330			
(f)	Lanka Sathosa	77,526,708			
(g)	Balance Receivable from Ampara District Secretariat	2,458,086			
(h)	Balance Receivable from Hambantota District Secretariat	18,351,743			
(i)	Receivable from the Ministry	296,842,875			

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) Within the debtor balances amounted to Rs. 2,748,583,551 as at 31 December 2018, there were the balances of Rs. 1,526,262,593 for more than 5 years, Rs. 409,217,648 in between 3 to 5 years and a sum of Rs. 813,103,310 in between 1 to 3 years. The Board had not taken adequate measures to recover these balances.</p>	<p>The balance in between 1 to 3 years as at 31 December 2018 was Rs. 813,103,310 and this balance has dropped to Rs. 738,103,310 by providing Rs. 75 million by the Cooperative Wholesale Establishment. The balance of Rs. 1,526,262,593 for more than 05 years had reduced to Rs. 1,523,168,014 due to receiving of a sum of Rs. 3,094,578.</p>	<p>Actions should be taken to recover the debtor balances.</p>
<p>(b) As per the balance confirmations received in respect of receivable from the Food Commissioner's Department amounted to Rs. 425,951,745 and Rs. 10,591,838 and a sum of Rs. 700,000 receivable from Palmyrah Development Authority as at 31 December 2018, those institutions had confirmed that as there were no such debtor balances in writing.</p>	<p>The answers were not given.</p>	<p>The balances should be correctly verified and included in the financial statements.</p>
<p>(c) The balance of Rs. 1,467,190,102 which had to be received from the Co-operative Wholesale Establishment shown under trade debtors as at 31 December 2018, had been confirmed as Rs. 1,070,666,192 as per the balance confirmation of that institution and a difference of Rs. 396,523,910 had remained between these balances.</p>	<p>The answers were not given.</p>	<p>The balances should be correctly verified and included in the financial statements.</p>

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendations
<p>Within the creditor balances amounted to Rs. 6,971,705,394 as at 31 December 2018, there were the balances of Rs. 281,665,114 for more than 4 years, Rs. 6,434,633,563 in between 3 to 4 years, Rs. 5,378,637 in between 1 to 3 years and a sum of Rs. 250,028,080 less than 1 year. There was a balance of Rs. 6,684,554,538 within this balance to be paid to the Treasury and actions had not been taken to settle those balances even by 30 November 2019.</p>	<p>The Paddy Marketing Board does not have adequate funds to settle its debts and it is expected to act as per the approval of the Cabinet of Ministers No. 18/0526732/007 dated 31.03.2018 to write off the bank loans through the General Treasury which had to be settled by the Paddy Marketing Board to State Banks as a long term loan and to settle the loan balances remained by earning profits through rice production.</p>	<p>Actions should be taken to clear the creditor balances.</p>

1.6.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendations
<p>(a) National Budget Circular No. 1/2016/ (i) of 19 September 2016</p>	<p>Even though a sum of Rs. 200,000 had been stated as the maximum monthly rental for taxis for official duties of Chairman, a sum of Rs. 848,800 had been paid exceeding that maximum monthly rent limit without the approval.</p>	<p>Payments have been made under the assurance and approval of the Head of the Institution</p>	<p>Actions should be taken as per the National Budget Circular.</p>

(b) Public Enterprises Circular No. PED 1/2015 dated 25 May 2015

Although the approval of the Secretary to the Line Ministry should be obtained with the recommendations of the Board of Directors, in case the monthly fuel allowance is not sufficient for the official vehicle of the Chairman, a sum of Rs. 482,285 had been paid without such approval.

Agree.

Actions should be taken as per the Public Enterprises Circular.

(c) Public Enterprises Circular No. PED / 12 of 02 June 2003

Annual Reports for the years 2016, 2017 and 2018 had not been tabled in Parliament even by the date of audit.

Approval of the Ministry has been received to submit the Annual Report for the year 2016 to the Cabinet of Ministers. Annual Report 2017 has been submitted for the translation into Tamil and English languages. The Annual Report of the year 2018 is being prepared.

Annual Reports should be tabled in Parliament in due course.

2. Financial Review

2.1 Financial Results

According to Financial Statements presented, the operational loss of the Board for the year under review was Rs. 1,185,101,723 and the corresponding loss of the preceding year was Rs. 462,105,320 thus the increase of the loss in the year under review was Rs. 722,996,403. Even though the income had decreased by a sum of Rs. 7,393,955,928 and the administration expenses and financial expenses had increased by Rs. 46,576,479 and Rs. 85,057,531 respectively, the decrease in cost of sales by Rs. 6,732,090,785 and increase of other income by Rs. 25,376,291 in the year under review as compared to the preceding year had mainly attributed to the increase of the above loss.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendations
<p>Even though it had been stated that a systematic stock control system needs to be established promptly as per the recommendations given by the Minister of Finance on 05 August 2019 on Memorandum of Cabinet of Ministers No. MF/PE/CM/2019/145, presented by the Minister of Agriculture, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development on 05 July 2019 in relation to the submission of the Annual Report and Accounts of the Board for the year 2015 to Parliament, activities on the stock control system, which was commenced by the Board in the year 2013, had not been completed yet. A sum of Rs. 18,328,337 for the purposes of establishing this system and also a total of Rs. 4,792,595 had been spent in the years 2016, 2017 and 2018 for the VPN (Vertical Private Network) charges needed for that by the 15 November 2019. It had been entered into an agreement to re-establish a computerized stock control system by the Board with Sri Lanka Foundation on 20 August 2019 and a sum of Rs. 360,000 had been paid as advances for that. Accordingly, it was observed that a sum of Rs. 23,120,932 paid from the year 2013 to 2018 was a futile expense.</p>	<p>The answers were not given.</p>	<p>Actions should be taken to install the relevant system immediately.</p>

3.2 Management Activities

----- Audit Observation -----	Comments of the Management -----	Recommendations -----
<p>(a) Paddy stocks had been issued For the rice exporting program implemented in the year 2012 subject to the conditions of providing Paddy stocks purchased by the Board to the private mill owners andthe handing over of the rice back to the Board.Although a complaint was made with theCriminal Investigation Departmenton 21 November 2014 torecover a sum of Rs. 143,735,794 that should be recovered of the 06 mill owners who did not return the rice according to the conditions, the Board was not able to recover the money by the date of the audit.Although it had been entered into agreements in the years 2017 and 2018, to be charged a sum of Rs. 2,545,126 receivable from 04 more mill ownersin installments that money had not been received as agreed. It had been impossible to file cases against the mill owners to recover a sum of Rs. 45,485,788 from 25 mill owners due to shortcomings in agreements and documents and any action had not been taken in respect of recovery of a sum of Rs. 16,181,975 receivable from 06 more mill owners.</p>	<p>Although it had inquired from the Criminal Investigation Department by sending letters on 21.08.2017 ,2018.04.04, 2019.07.01 and 2019.09.02, there was no any response received to us from them. Files are currently being prepared to take legal actions against 25 rice millers to recover money from 25 mill owners whose agreements and documents consisted with shortcomings. Six files which were duly completed to file cases have been forwarded to the Ampara Regional Office for making preliminary police complaints.</p>	<p>Actions should be taken to recover the balance due from the mill owners.</p>

- (b) The approval for issuing paddy stocks to private paddy millers on credit basis was issued by the Additional Secretary of the Ministry of Co-operatives and Internal Trade on 22 August 2011 dated 22 August 2011 and CTT / 5/6/1/1 . Even though it was stated that the payments should be made within 60 days from the date of issue in accordance with Section 2.1 of the agreement which had entered into at the issuance of paddy stocks to paddy mill owners, even though more than 09 years had elapsed since the release of paddy stocks, a sum of Rs. 69,955,341 had to be recovered for 2,900,000 kg of paddy issued to 09 mill owners. The Board had failed to recover this money even by 15 November 2019, the date of the audit.
- The files relevant to 09 mill owners with regard to the issuing of paddy stocks on credit basis to private paddy mill owners have been provided to the Criminal Investigation Department . Further, the then General Manager who had worked on this program basically has been arrested and sued in the Fort Magistrate's Court. The case has been referred to the Department of Attorney General's for further actions.
- Actions should be taken to recover the balance due from paddy mill owners promptly.
- (c) Three bridge scales had been built in Kilinochchi, Nikaweratiya and Ampara area in the year 2017 incurring a sum of Rs. 8,970,000 by the Board. Although more than two years had elapsed after the construction of the bridge scales by 15 November 2019, these bridge scales had not been used for weighing. Although it had stated that the preliminary environmental and social impacts should be considered in accordance with Guideline 2.3.1 (a) of Paragraph 2 of the
- Since the construction of these bridge scales has been made without conducting a feasibility study, an investigation is carried out how this has been acted upon.
- Arrangements should be made in accordance with Guideline 2.3.1 of Paragraph 2 of the Procurement Guidelines and a programme should be prepared to make use of these bridge scales.

Procurement Guidelines, as a result of paying lack of attention to those matters and because of the non-operation of the Economic Centre of Kilinochchi where the bridge scale was installed and also due to the inability of the lorries to travel on the access road to the bridge scale which was built in Ampara.

- (d) Eleven Stores and 05 stores owned to the Board had been handed over to the Ceylon Fertilizer Company Limited and the Colombo Commercial Fertilizer Company Limited respectively without entering into lease agreement among two parties, any lease amount had not been recovered from those Companies by the date of audit.
- It was informed that the company is occupying of distributing fertilizer to the farmers through Agrarian Development Centres to implement the government subsidized fertilizer policy without the intention of making a profit and currently not possible to pay the rent as well.
- Proper lease agreements should be entered into in case of leasing of warehouses and should act in accordance with the lease agreements in respect of the lessor who has expired the deadline.
- (e) The loan balance payable to two major State Banks by the Board as at 31 December of the year under review was Rs. 11,419,664,165 and the interest on it amounted to Rs. 1,227,689,922 and the bank overdraft was Rs. 269,849,649. In the event of availability of such credit balances, there was a savings balance of Rs. 377,702,910 and 02 current account balances totalled to Rs. 283,674,369 belonging to the Board as at 31 December of the year under review and actions had not been taken for the settlement of loans obtained from state banks from those balances.
- The Government expects to implement Government policies by the Paddy Marketing Board to the satisfaction of the farmer and the consumers and the programmes implemented under certain government policies may incur losses. A Memorandum of Cabinet of Ministers has been submitted regarding this settlement and as per the decision made, the Paddy Marketing Board should take measures to repay the debts to be settled to state banks based on the long term plan of the Treasury.
- Arrangements should be made to invest to receive a benefit from the savings account balance and the current bank account balance.

Since the Paddy Marketing Board does not have sufficient financial stability to pay off these loans and interest, requests have been made to the Secretary to the Ministry to make necessary arrangements for the implementation of the above Decision of Cabinet of Ministers.

(f) The accumulated loss of the Board as at 31 December 2018 was Rs. 1,185.1 million as per the financial statements 2018 presented by the Board. The Minus Net Assets of the Board for the year 2018 had increased up to 13,266.65 million or by Rs. 717.96 million as compared to the year 2017. Accordingly, there was an uncertainty to continue the institution without the financial support of the Treasury.

Agree with the observation.

Functions of the Board should be carried out obtaining minimum allocations from the Treasury.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendations
<p>The stock shortage identified in the verification of paddy stock carried out in the year 2018 was 85,933,454 kgs. and the value of it was Rs. 3,047,107,163 . Except for the allowed quantity of stocks that are allowed, actions had not been taken to recover the relevant value from the stock keepers, identifying the stock keepers who are responsible for the balanced shortages</p>	<p>Investigation activities of stock shortages have been commenced appointing of an Inquiry Committee on stock shortage and except for the shortages of stocks that can be allowed after the investigations, actions will be taken to recover the balance of the shortages from the stock keepers as surcharges.</p>	<p>Immediate actions should be taken to identify the stock keepers who are responsible for the stock shortages and recover relevant value from them.</p>

