

Transactions Report of Sri Lanka Cashew Corporation - 2019

The audit of the operational activities of the Sri Lanka Cashew Corporation for the year ended 31 December 2019 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. This report is submitted to parliament in terms of Article 154 (6) of the Constitution.

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

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018. The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the Financial Statements which were approved by the Governing Council in the year 2019 that should be submitted to the Auditor General within 60 days after the closure of the accounting year had not been presented for audit even by the date of this report in terms of the Public Enterprises Circular No. PED /12 of 02 June 2003.

2. Audit Observations

2.1 Non-compliance with written Laws, Rules or Other General or Special Directives issued by the Governing Council

The instances of non-compliances with Laws, Rules Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations etc.	Non - compliance	Comments of the Management	Recommendation
(a) Value Added Tax Act No. 25 (amended) of 2018 and Nations Building Act No. 20 of 2018	Even though the registration and payment for VAT and NBT are required to be made if the taxable goods, services or supplies exceed Rs.3,000,000 per quarter or Rs.12,000,000 per annum and also the	A written request has been made to the Ministry of Finance through the Line Ministry to obtain a special tax relief by drawing special attention because of the possible adverse effects on	Actions should be taken in terms of the provisions of the Act .

Corporation had earned a turnover of Rs.106,475,947 for the year 2019, actions had not been taken to register for VAT and NBT or to pay taxes .

the market demand existing for cashew nuts of the Corporation on rising prices through the addition of the taxes mentioned here to the selling price of cashew nuts .

(b) Section 10 (2) of the Employees Provident Fund Act No. 15 of 1958

Although the contribution for the relevant month has to be paid before the last day of the next month when paying contributions to the Employees Provident Fund, the contributions for Employees Provident Fund in relation to the months of April, May, June and July of this year as at 31 December 2019 amounting to Rs.6,612,177 had remained unpaid. The contributions for the months of May, June and July 2019 had not been paid even by 30 June 2020 .

Payments mentioned in these audit paragraphs have been delayed due to financial difficulties of the Corporation and actions will be taken to complete the relevant payments as soon as the money is received .

Actions should be taken in terms of the provisions of the Provident Fund Act .

(c) Employees' Gratuity Act No. 12 of 1983

Even though the payment for gratuity should be made within one month of retirement of the employee, actions had not been taken even by October 2020 to pay the gratuities of 8 officers who had retired in the year under review .

Payments mentioned in these audit paragraphs have been delayed due to the financial difficulties of the Corporation and actions will be taken to complete the relevant payments as soon as the money is received.

Actions should be taken in terms of the provisions of the Act.

- (d) Section 18 of the National Audit Act No. 19 of 2018
- Even though the audit fees should be settled by the Corporation within 30 days from the date mentioned in the invoice, the audit fee payable from the year 2005 to 2018 amounting to Rs. 2,552,208 had not been settled by the year under review .
- Payments mentioned in these audit paragraphs have been delayed due to the financial difficulties of the Corporation and actions will be taken to complete the relevant payments as soon as the money is received .
- Actions should be taken to pay the audit fees as per the provisions of the Act .
- (e) Directives of the Committee on Public Enterprises dated 24 July 2012
- Even though it had been informed by Committee on Public Enterprises to make arrangements to take over the legal ownership of the lands to the Corporation which were not legally owned by the Corporation, the relevant activities had not been completed even by 31 May 2020 to take over the legal ownership of 15,329 acres of cashew cultivation lands which were provided by Divisional Secretariats and Land Reforms Commission to the Corporation .
- Even though the total acreage of lands currently in use by the Sri Lanka Cashew Corporation has been stated as 15,329, it should be corrected as 12,044 acres. The approval of the Cabinet of Ministers has been received to transfer the ownership of 9,674 acres of estates and seed gardens out of that to the Sri Lanka Cashew Corporation on a long term lease basis. Accordingly, Necessary future arrangements will be carried out in collaboration with the Divisional Secretaries of the areas where the
- Arrangements should be made to take over the legal ownership of the lands .

lands are located. Further, 1,874 acres of land has already been transferred to this Corporation on a long term lease basis and the lease rent of them has to be paid. Necessary actions are being taken to take over the ownership of other lands to this Corporation .

2.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though it had been spent a sum of Rs.3,412,063 under recurrent grants and Rs.3,927,223 under capital grants for the Puttalam and Kamandaluwa Research Centers in the year under review, no new research whatsoever had been commenced during the year under review and only 08 ongoing researches have been carrying out from previous years at both centers. Further, maintaining of progress reports had also not been carried out continuously and properly in a manner of the progress of the researches can be evaluated .</p>	<p>All researches relating to cashews are being carried out continuously for several years and the researches mentioned herewith are as such. It is stipulated to release 03 new improved cashew varieties in this year and to introduce 02 more improved cashew varieties to the field in the next year. Four new research programmes have been implemented. A Monthly Progress Report is submitted to the Board of Directors in respect of the progress of Research Programmes conducted by the Research Division .</p>	<p>Maintenance of continuous and regular progress reports should be made as the progress of the research can be evaluated.</p>

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| <p>(b) Even though it had been informed that to develop a sales plan properly to promote marketing activities and to be submitted to the Board of Directors for approval at the 524th Meeting of Board of Directors held on 02 July 2019, arrangements had not been so made .</p> | <p>The plan has been revised considering the changes that have taken place in marketing activities due to the recent Covid-19 epidemic period and arrangements will be made to submit the Revised Marketing Plan to the Board of Directors for approval .</p> | <p>Actions should be taken in accordance with the Decision of the Board of Directors .</p> |
| <p>(c) Even though the Board of Directors had instructed at the 526th Meeting of the Board of Directors held on 30 August 2019 to prepare a Production Plan for the future and a Sales Plan in line with that relating to the Marketing Division and submit it to the Board of Directors and to formulate a programme to promote cashew nuts in the Corporation by formulating a system of providing cashew nuts at concessionary prices to government agencies, arrangements had not been so made .</p> | <p>The programme to provide cashew nuts at concessionary prices to government institutions is currently being implemented and activities of cashew sales have been done during the year under review by offering nearly 10% trade discount to the staff members of the Ministry of Finance as its initial step .</p> | <p>Actions should be taken in accordance with the Decision of the Board of Directors .</p> |
| <p>(d) The stock which had been stated as work in progress as at 31 December 2018 amounted to Rs. 246,127 and the bottles amounted to Rs.5,550 of Wine Project had been written off as losses. Further, even though a consultancy fee of Rs. 66,700 had been paid to an outsider for this project in the last year, no income</p> | <p>Because of the acid content of it was reported relatively high after sending the samples of wine production mentioned here to the Department of Government Analyst's for the year 2018, that stock of wine was rejected. Even though the attempts were made to make the necessary changes accordingly, all of them had failed. Accordingly, the</p> | <p>A sample should be produced and the recommendations of the Department of Government Analyst's should be obtained under the right advice.</p> |

- whatsoever had been earned by the Corporation .
- relevant disposal activities were carried out with the approval of the Governing Authority .
- (e) A sum of Rs. 96,607 had been paid as surcharges on non-payment of gratuity funds on the due date during the year under review .
- These surcharges have to be paid due to late payment of gratuity due to the financial difficulties of the Corporation .
- Actions should be taken in accordance with the provisions of the Act .
- (f) The current assets ratio and the quick assets ratio of the Corporation for the year under review have been 1.5 and 0.64 respectively and it was observed in audit that the Corporation is in a working capital crisis on the statutory payments totalling to Rs. 14,608,861 at the end of the year and non-payment of deductions made from the salary of the employees .
- Daily operational activities are maintained to the maximum extent possible though the Corporation has financial difficulties. There was also a delay in the payment of medical assistance due to the financial difficulties mentioned above and however, 1/3 of all medical aid payments for 2018 have been completed during the current year. Arrangements will be made to carry out necessary activities and to pay the remaining medical aid to the staff members .
- Actions should be taken to incur statutory payments and deductions from employees' salaries in a timely manner.
- (g) The Cashew Corporation reimburses the expense of Rs.15,000 per annum for outpatient treatment of employees and family members under the Medical Assistance Scheme which has been in operation since 04 June 2013 without the approval of the Treasury and a monthly membership fee of Rs. 300 had been charged for this from the salaries of
- Daily operational activities are maintained to the maximum extent possible though the Corporation has financial difficulties. There was also a delay in the payment of medical assistance due to the financial difficulties mentioned above and however, 1/3 of all medical aid payments for 2018 have been completed during the current year. Arrangements will be made to carry out necessary activities and to pay the
- Treasury approval should be obtained and arrangements should be made to make payments properly.

the employees. Nevertheless, although the employees have submitted bills for outpatient treatment under this Scheme, the reimbursement of the aforesaid expenditure had not been made for a period of three years. The medical assistance payable by the end of the year under review had been Rs.3,470,925 .

remaining medical aid to the staff members .

- (g) There is a sum of Rs.10,426,696 as commercial debtors under Commercial Nurseries and an amount of Rs. 9,466,200 out of that is a value that should be received from the Ministry of Economic Development older than 07 years . It was observed that there is a situation where this money could not be recovered.
- Even though a hard effort has been made to recover the loans receivable from the Ministry of Economic Development mentioned here, it has failed. However, continuous efforts will be made to recover those loans .
- Actions should be taken to recover the receivables promptly .
- (h) Arrangements had not been made to repay the loan amounted to Rs. 3,500,000 and its interest of Rs. 927,500 that had to be paid for more than 06 years to the Paddy Marketing Board .
- These loan payments have been delayed due to the financial difficulties of the Corporation. Actions will be taken to repay these loans at least in installments once the financial situation improves .
- Arrangements should be made to repay the loan and interest on time.
- (i) The Corporation had sold 19 motorcycles during the year under review and an income of Rs.175,000 had been
- The number of 19 motorcycles mentioned here are not in a very dilapidated condition and also not economically advantageous
- Actions should be taken in accordance with the Procurement Guidelines and Decisions of the Board

earned from it. Even though it had been stated at the 523th Meeting of Board of Directors held on 28 May 2019 that if one person buys the entire number of 19 motorcycles, it should be sold for more than the estimated value, the Corporation had sold the number of 19 motorcycles which held an estimated value of Rs.343,500 to a private buyer for a Rs. 175,000 .

for repair and use to the Corporation, have been safely stored at the Nedagamuwa Processing Center of the Corporation and a newspaper advertisement was published to sell them. Meanwhile, an Assessment Report was also obtained from the Department of Valuation for those motorcycles.

Since there was no response to the published newspaper advertisement, calling of bids has been carried out at divisional level and therein, a buyer has offered to buy all the motorcycles at once.

The relevant motorcycles were sold to that buyer with the intention of minimizing the losses to the Corporation because of keeping these dilapidated motorcycles in the custody of the Corporation furthermore may result not be able to sell them even in a residual value and also it felt that the price received was reasonable as per the practical condition of the relevant motorcycles .

of Directors .

2.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though a sum of Rs. 5,050,354 had been spent to convert the training center at Hardy Estate, Ampara into a circuit bungalow in 2017 and to purchase furniture,	The administration has decided to obtain and maintain tourist orders from the Corporation itself without leasing out this circuit bungalow to external parties. Necessary actions are being	It should focus on the activities that can generate more revenue from the circuit bungalow .

only an income of Rs. 48,000 had been earned in the year under review by renting out this circuit bungalow .

taken paying close attention to the publicity and other activities required for that .

(b) Actions had not been taken to auction the boiler system which was used for boiling cashews valued at Rs.526,700 for older than 24 years at the Puttalam Cashew Processing Center and to make use of 11 manual cashew cutting machines available at the same center .

A letter has been sent to the National Institute of Engineering Research and Development of Sri Lanka to obtain an Assessment Report on the relevant disposal because of the boiler cannot be used longer. The further disposal activities will be completed as soon as the relevant Assessment Report is received.

Arrangements should be made to expedite the disposal activities.

Manual cashew cutting machines are used to continue the processing activities in the event of an emergency power breakdown .

(c) It was observed that the labels purchased for the Wine Project amounting to Rs.142,980 were in idle .

All of these packaging materials can be used once wine production has been resumed .

Actions should be taken to start wine production and use the packaging material as soon as possible .

2.4 Staff Management

Audit Observation	Comments of the Management	Recommendation
Even though there were 02 vacancies in Senior Level posts, 08 vacancies in Tertiary Level posts, 45 vacancies in Secondary Level posts and 11 vacancies in Primary Level posts of the Corporation, actions had been taken to fill those posts .	Necessary steps have been taken to fill these vacancies in future .	Actions should be taken to fill the vacancies of the posts of the Corporation expeditiously.

2.5 Achieving of Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Even though the organization needs to identify the targets that need to be achieved and the gaps that exist to achieve those goals as well as the appropriate indicators to measure progress in order to achieve the Sustainable Development Goals, in terms of the United Nations 2030 Agenda for Sustainable Development and the Circular No.NP / SP/SDG / 17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs, the Corporation had not identified the extent and deviations achieved by identifying such indicators and objectives as well as the various areas to be focused .	Actions will be taken to include it in the Action Plan 2021 .	Arrangements should be made in terms of the Circular .