

## **Palmyrah Development Board - 2020**

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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 Palmyrah Development Board (“Board”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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

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

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

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

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

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

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

#### **1.4 Audit Scope**

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 Audit Observations on the preparation of Financial Statements**

### **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 Public Sector Accounting Standards**

	<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	In terms of Sri Lanka Public Sector Accounting Standards (SLPSAS) - 07, particulars relating to fully depreciated Property, Plant and Equipment (PPE) costing Rs. 219,512,866 which still in use had not been disclosed in the financial statements. As well the estimation error of the useful life of those assets had not been rectified and adjusted in the financial statements according to SLPSAS-03	Management has been taken the proper action in future.	According to the requirement of SLPSAS-7, Fully depreciated assets that still in use should be disclosed in the financial statements and estimation error of use full life should be rectified
(b)	According to the Accounting policy disclosed in note 2.1.4 of the financial	Balance non-current assets projected fund Rs. 58,633,355	Research and development costs

statements, the development expenditure incurred before 2015 for handicraft, research and development and seed's plantation amounting to Rs.58,633,355 had been identified as an asset, without being identified possible economic benefits or service potentials, instead of being identified as an expenditure and amortized it contrary to the requirement of SLPSAS-20. As a result, non-current assets had been overstated by that amount in the financial statements. Further, the amortization amount of handicraft, research and development and seed's plantation expenditure for the year under review amounting to Rs.14,658,338 had been shown under the statement of the changes in equity as debit balance instead of being recognized as expenditure in the statement of financial performance. As a result, the profit for the year under review had overstated by Rs.14,658,338, and the equity for the year had understated by the similar amount.

has been rectified after the proper board approval. Previous period capital amortization amount Rs 14,658,338.00 including the statement of changing in equity. Because we are expecting to show the actual financial profit or loss.

should be accounted based on the guidelines prescribed in the SLPSAS-20.

### 1.5.3 Accounting Policies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Even though the Board has received annual government grants for capital and recurrent expenditures, accounting policy for the accounting of government grants had not been introduced by the Board. The government grant received only for the year under review amounted to Rs. 137,650,053.	Management has been taken the proper action in future	Accounting policy for accounting of government grants should be introduced.

### 1.5.4 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) As a result of calculation errors, the provision for gratuity as at end the year under review had been understated by	Gratuity provision calculated had been made only five years completed staffs list After proper	Correction for the calculation of gratuity to be

Rs. 70,318,339.

board approval, we will consider the number of years of completed service to calculate the gratuity provision.

made in the financial statement according to the guidelines.

(b) The net amount of the opening balances of the government grant account, research and development account (Debit balance) and revaluation reserve account amounting to Rs. 24,924,702 had been credited to Other capital account after being set off the debit and credit balances of the each account without being disclosed the reason for adjustments and furnished the supporting documents. As a result, the government grant and revaluation reserve balances as at end of the year under review had been under stated by Rs. 34,330,000 and Rs. 8,917,627 respectively and other capital account balance had been overstated by Rs. 24,924,702 in the financial statements.

Management has been taken the proper action in future.

Proper accounting procedures should be followed by management

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

#### Audit Issue

The Board had not taken proper actions to recover the debtor balances totaling Rs. 9,737,265 which were remained as outstanding for over 6 years.

#### Management Comment

Management periodically sending legal request with the help of legal advisor in future. Management will be take further action with the advice of line ministry legal advisor.

#### Recommendation

prompt actions should be taken to recover the dues as early as possible.

### 1.6.2 Payables

#### Audit Issue

The creditor balances totaling Rs. 3,365,391 included under creditors was remained as unsettled as at end of the year under review for a period ranging from 1 to 5 years.

#### Management Comment

Management has been initiating as per FR 115

#### Recommendation

Appropriate action to be taken to identify prevailing liability, and if it not liable to make

the payment, that payables should be written off as an income

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) <b>National Audit Act, No. 19 of 2018</b> Section 40(1)	The governing body of the Board had not appointed an Internal Auditor to perform an internal audit function.	Present Chairman has been restfully the Internal Audit unit for effective activities of Internal Audit unit for unbiased inspect, proper audit plan and implementation.	Should be complied with National Audit Act
(b) <b>Financial Regulation of the Democratic Socialist Republic of Sri Lanka</b>			
(i) Financial Regulation 110	A register of losses and damages had not been maintained	In future we will maintain the losses and damage register.	Should be complied with Financial Regulations
(ii) Financial Regulations 115(3)(b)	In 12 instances, lapsed payments amounting to Rs. 1 million had been made without being obtained certificates of a duly authorized officer who should have indicated on the voucher the circumstances in which payments had been delayed.	In future we will follow the delayed payment financial rule & regulation, and action will be taken to complete 115 (B) and make payments.	Should be complied with Financial Regulations
(c) Section 4.2 of the National Procurement Agency Circular No. 08, dated 25 January 2006.	The procurement plan containing at least 03 years period had not been prepared by the Board.	Board has been yearly received capital and recurrent fund. Further we have receiving special fund from line ministry for livelihood development.	Should be complied with circular instructions and guidelines of Procurement

- Therefore, we couldn't explain development aims and prepare the procurement plan.
- (d) Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. The financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the closer of the financial year. However, the financial statements of the Board for the year 2020 had only been furnished to audit on 06 May 2021 after delaying 67 days.
- We accept of not submit the annual report on time according the auditor general letter AG.GEN/Sec./2018/82 dated 17th December 2018 and Public enterprises circular.
- Should be complied with the circular instructions.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a deficit of Rs.67,787,399 and the corresponding deficit in the preceding year amounted to Rs.79,121,047. Therefore an improvement amounting to Rs.11,333,648 of the financial result was observed. The reason for the improvement is decrease of expenses.

## 3. Operational Review

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

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Audit Issue -----	Management Comment -----	Recommendation -----
Three Jaggery production plants purchased in the year 2018 for Rs. 20.85 million had been remained in idle for over three years without being used for the production activities.	Board had handed over to the Karavetti Palm Development Cooperative societies (with the board approval) and now effectively function based on high sweet production area. We will transfer the remain two plants for effective utilization	Suitable action should be taken to use the plants effectively..

### 3.2 Management inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The over payments of salary increments to 8 managers of the Board before the years 2018 amounting Rs. 4,280,600 had not been recovered even up to end of the year under review.	Independent inquiry committee had been appointed by the line Ministry Secretary for clarifying this problem. According to inquiry committee decision management will be take action.	Immediate actions should be taken to recover the over payments.