

Palmyrah Development Board - 2021

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Palmyrah Development Board (“Board”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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.

I do not express an opinion on the accompanying financial statements of the *Board*. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is Disclaimer 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 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The development expenditure that had been incurred before the year 2015 for handicraft, research and development and seed's plantation amounting to Rs.46, 906,685 had been identified as an asset, without being identified possible economic benefits or service potentials contrary to the requirement of SLPSAS-20. As a result, non-current assets had been overstated by that amount in the financial statements.	The needful action will be taken by the management of the board to rectifying these issues with the board approval	The development expenditure should be accounted as per the guidelines in the standard.
(b) The prior year adjustments for three items that had been made in the changes in equity statement aggregating to Rs.119,151,120 during the year under review had been made without being adjusted them retrospectively in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 3 (SLPSAS). As well, the necessary disclosure in the financial statements had also not been made.	Submitted with pending approval	Prior year adjustments should be adjusted in the financial statements retrospectively.
(c) Contrary to the SLPAS 01, the expenses for the year under review aggregating to Rs.13,867,838 had been offset with payables in the financial statements. As a	Rectified and include in year 2022 account.	The liabilities and expenditure should be shown in the financial

result, net deficit for the year had been overstated and payables had been understated by that amount in the financial statements.

statement without being offset them

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| (d) | The current liabilities, sundry debtors, staff advances, refundable deposits and rent advances totaling Rs.27,728,636 had not been correctly adjusted to calculate the cash flows from operating activities in terms of SLPSAS -2.As a result, accuracy of the cash flow statement could not be ascertained in audit. | Corrected cash flow and submitting herewith. | Cash flow statement should be prepared according to the SLPSAS - 2 |
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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Advance payment for the Kalpity Production building renovation works amounting to Rs.3,000,000 had been accounted as expenditure during the year under review instead of being accounting for as advances. As a result, deficit for the year had been overstated and currents assets had been understated by that amount respectively.	It is noted and will be adjusted in current year accounts – 2022.	Transactions should be correctly classified and shown in the financial statements.
(b) According to the lease agreement of building rented in wellawatta, the annual rental expenditure amounted to Rs.6,000,000. However, only the cash payment of Rs.4, 500,000 had been identified as rent expenditure for the year under review due to not identifying of rent advance payment proportionately as a part of rent payment. As a result, rental advance had been over stated by Rs.1,500,000 and net deficit had been understated by the similar amount in the financial statements.	Lease agreement for the premises located at wellawatte is overstated of rental advance by Rs. 1,500,000.00 will be rectified in financial statements in proper manner.	The expenditure of the accounting period should be correctly identified.
(c) Due to not considering of actual liability the retirement benefit obligation, the provision for retirement benefits had been overstated by Rs. 19,642,888. As a result retirement benefit obligation in the	Rectified in year 2022.	The liabilities shouldbe shown in the financial statement without being overstated.

statement had been overstated by that amount.

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| (d) | A land in karainagar which is belonging to the Board and registered at the Registrar's General Department on 24 November 2017 had not been valued and brought to the financial statements, As a result, the value of the non-current assets had been understated in the financial statements. | We will get valuation from the Department of Valuation and posted to the year 2022 account. | All assets belonging to the Board should be valued and accounted. |
| (e) | A total difference of Rs.5,114,866 was observed relating to four items between the financial statements and related supporting documents and schedules. However, reason for the differences had not been explained to audit. | Action will be taken to rectify in year 2022 final account | Balances should be reconciled and adjusted in the accounts. |

1.5.3 Documentary Evidences not made available for Audit

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
The deeds for 4 lands valued at Rs.28,007,606 , details for the adjustment to the cash flow statement amounting Rs.1,082,328 , rental agreements and valuation reports for rent advance and rent payment amounting Rs.17,898,636, Journal Entries for prior year adjustments amounting Rs. 119,151,120 were not made available for audit .As a result, above items could not be satisfactory vouched or accepted in audit.	Available copies of the deeds have been annexed herewith for your kind consideration.	All the required evidence for audit should be furnished for audit as they requested.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Action had not been taken to collect receivable balances of sundry debtors amounting to Rs.9,857,265 which was exist for over 06 years without being recovered.	No Management comment	Action should be taken to recover the receivable.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Action had not been taken to settle payable balances aggregating to Rs.3,816,392 was existed for over 01 year to 06 years without being settled.	No Management comment	The payables should be settled after confirming the actual liabilities.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 16 of the Employees' Provident Fund Act	It was observed that a surcharge aggregating to Rs.41, 966,393 was due for the period from 2001 to 2021 due to not paying of employee provident fund contributions by the Board in the stipulated time periods.	Explanation report and relevant documents on surcharge aggregating to Rs. 41,966,393.21 has annexed herewith	Should comply with Provisions in the act.
(b) Section 46 and subsection 16 of the, Employees' Trust Fund Act No.46 of 1980	No action had been taken for the surcharge aggregating to Rs.389,069 due as at 29 October 2021 due to not paying of Employee Trust Fund contribution by the Board in due time periods.	Justification report on surcharge aggregating to Rs. 389,069 due as at 29 October, 2021. However, due to the Covid pandemic situation, ETF surcharge can be paid stipulated period	Should comply with Provisions in the act.
(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371(2)	The balance of a Sub-Imprest should be settled immediately after the completion of the purpose. However, in 5 instances, aggregating to Rs. 93,600 had not been settled by the end of the year under review. Further, in 72 instances,	Strict measures will be implemented in future. Further, continuous operation request will be consider Rectified and corrected in year 2022 final account.	Should comply with financial regulations.

aggregating to Rs.1,541,400 of advances paid to employees had not been settled on due dates, and thus, the period of delays in settlements had been ranging from 21 days to 331 days.

(ii) Financial Regulation (2)	755	No action had been taken to reconcile the difference between the balance of inventory register and the actual balance.	The necessary action will be taken to rectifying this issue	Should comply with financial regulations
(iii) Financial regulation (i)	880	The security deposits had not been received from 22 officers for the faithful discharge of their duties.	The necessary action will be taken to rectifying this issue	Should comply with financial regulations
(d) Public Enterprises Circular No. PED/12 dated 02 June 2003		The financial statements of the Board for the year 2021 had been furnished to audit on 12 August 2022 with the delay of 165 days.	the board approval was obtained at the 10 th board meeting on 23 rd September 2022. In future they will be submitted in stipulated time	Should comply with circular instructions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.33,538,883 and the corresponding deficit in the preceding year amounted to Rs.67,787,399. Therefore an improvement amounting to Rs.34,248,516 of the financial result was observed. The reason for the improvement was increased of other income by Rs.93,379,664.