

Spices and Allied Products Marketing Board - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Spices and Allied Products Marketing Board for the year ended 31 December 2022 comprising the financial position as at 31 December 2022 and statement of financial performance, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 the provisions of the National Audit Act No.19 of 2018 and the Finance Act No.38 of 1971. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of Board as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on 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 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 Public Sector Accounting Standards and for such internal control as management determines 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 fund 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 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 Scope of Audit (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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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
- An understanding of internal control relevant to the audit was obtained 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 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 discussions 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 relating to the preparation of the financial statements

1.5.1 Non-compliance with the Public Sector Accounting Standards

	Non-compliance with the reference to the relevant standard	Comments of the Management	Recommendation
(a)	As per paragraph 69 of Sri Lanka Public Sector Accounting Standards No.07, even though the depreciation of a fixed assets is commenced after bringing it into the usable condition, the depreciation had been adjusted for the year of purchase of the asset contrary to that and the depreciation had been adjusted based on the date of purchase only for motor vehicle.	The action will be taken to submit the depreciation policy in relation to the assets with the accounts in 2023. The action will be taken to rectify the faults occurred in the calculation of depreciation in 2022 in preparation of the accounts in 2023.	The depreciation policy should be disclosed as per the standard and the depreciation should be accurately calculated.
(b)	As per Sri Lanka Public Sector Accounting Standards No.11, even though the grants which had fulfilled the performance conditions should be identified as the revenue, the net profit of the year had been understated by same amount through accounting of grants of Rs. 67,535,471 received from the Treasury as the recurrent grant in the year under review in the statement for changes in equity.	Since the money received from the Treasury is not revenue, it had been transferred to the fund account. As highlighted by you, the steps will be taken to account this money as revenue since 2023.	The Treasury grants should be accounted as per the standard.

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| (c) | <p>As per paragraph 27 of Sri Lanka Public Sector Accounting Standards No.12, though a value equal to present value of the minimum operating lease payments should be identified as the assets and liabilities by the buyers of operating lease if the fair value of the operating lease in the statement of financial position is less than it at the commencement of operating lease term, the action had not been taken likewise in relation to 02 vehicles purchased under finance lease in the year under review. An operating lease of Rs. 3,868,620 and vehicle maintenance expenses of Rs.39,000 had been capitalized and the provision for depreciation related to that had been also made.</p> | <p>Sri Lanka Accounting Standards (SLFRS 16) published by Sri Lanka Institute of Chartered Accountants in 2018 had been issued and the adjustments related to this leased asset had been made as per the example indicated in that. As shown by you, it is noted to make adjustments through accounts in 2023 in accordance with 27 of Sri Lanka Public Sector Accounting Standards No.12.</p> | <p>The Leased property should be accounted as per Sri Lanka Public Sector Accounting Standards.</p> |
| (d) | <p>Even though the computer software should be accounted as an intangible asset as per paragraph 07 of Sri Lanka Public Sector Accounting Standards No.20, an amount of Rs.7,208,000 incurred for Till Max and POS computer systems had been accounted under computer equipment without identifying as intangible assets.</p> | <p>As highlighted by you, it is noted to adjust the computer software as an intangible asset with the final accounts in 2023.</p> | <p>The computer software should be accounted as intangible assets.</p> |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The action had not been taken to rectify the provision for building depreciation of Rs.293, 333 and lease rental paid in advance of Rs. 425,000 which had been erroneously shown in the final accounts in the preceding year in the accounts for year under review.	The journal notes related to Rs. 293,333.33 with regard to provision for depreciation for buildings prior to preparation of the trial balance in 2022 had been made under No.83. However, this provision for depreciation had been made again through journal note No.112 by a mistake. As pointed out by you, it is noted to rectify the lease rental paid	The adjustments in the preceding year should be accurately presented in the accounts.

in advance but not adjusted in 2023.

- (b) In the calculation of the annual depreciation expense in relation to office furniture, machineries and name boards, it had not been adjusted in the accounts the annual depreciation of Rs.281,280, Rs.229,108 and Rs.1,642,220 respectively for such assets at the beginning of the year under review.
- In making depreciation adjustments, it had been missed the making depreciation adjustment in relation to furniture and equipment, machineries and name boards. It is noted to rectify this error in 2023.
- The depreciation adjustment should be accurately submitted.

1.6 Non-compliance with laws, rules, regulations and Management Decisions

	Reference to laws, rules and regulations	Non-Compliance	Comments of Management	Recommendation
(a)	Section 10 of Stamp Duty (Special Provisions) Act No.12 of 2006	As per referred section of the Act, even though the Stamp Duty should be charged, no Stamp Duty had been charged for payment of Rs.2,693,142 at 13 incidents as per the sample test.	It is agreed with the audit observation. It is ensured that the Stamp Duty is charged as per the provisions of the Act at this occasion.	As per the Stamp Duty Act, the stamp duty should be charged for the payments more than Rs.25, 000.
(b)	Financial Regulations amended by Public Finance Circular No.01/2020 dated 28 August 2020 of Secretary to the Treasury			
(i)	371(2)(b)	Even though an ad-hoc sub imprest can be provided for a maximum of Rs.100,000 at one incident only for the staff officers for any specific purpose, an aggregate of Rs. 15,333,505 had been provided to 02 officers at 03 occasions by Rs.6,600,000, Rs.2,933,505 and Rs.5,800,000 not in compliance with that.	A special project for purchase of turmeric mediation by the government for purchase of the productions of the farmers had been commenced owing to drastic increase of the turmeric production in this country in 2022. Accordingly, an advance amounts with this value had been provided since the turmeric had been purchased by visiting the turmeric farmers and the adequate staff officers are not available to	As per the Financial Regulations, the sub imprest should be provided.

provide the advances. The action is being taken to submit the advance register to you with the settlement notes in relation to these advances.

(ii) F.R. 257	Even though the payments should be made only for the certified vouchers, it was observed in the audit that the occasions in which the payments had been made without certification of the vouchers.	It is agreed with the audit observation. The certifying officers who had served during this period are not in the service and however, the action is being taken to avoid these deficiencies presently.	The payments should be only paid to the certified vouchers.
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(c) Guideline on
Corporate Good
Governance
No.01/2021 dated
16 November 2021

Paragraph 6.7	Even though annual verification should be carried out for the fixed assets and stores, such survey had not been performed for the fixed assets as at 31 December 2022 by Board.	The assets survey related to 2024 had been commenced and the survey in respect of regional outlets had been already finished. After finishing the surveys for other outlets, the action will be taken to completely prepare the assets register and the steps will be taken to submit it to you once it will be finished.	Annually, the physical verification should be carried out for the fixed assets.
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2. Financial Review

2.1 Financial Results

The operating result in the year under review was a surplus of Rs.42,432,641 and correspondingly, the surplus in the preceding year was Rs.15,882,403. Accordingly, the financial result had shown a growth of Rs.26, 550,238 comparing with the previous year. The increase of sales income of Board by Rs.538,993,137 in the year under review had mainly caused for this growth compared with the preceding year.

2.2 Ratio Analysis

(a) The current assets ratio of the year under review and the preceding year were 3.79 : 1 and 10.47 : 1 respectively and the quick assets ratio was 0.84 : 1 and 9.8 : 1 respectively. Even though the current assets had increased by 30 percent in the year under review compared with the preceding year, increase of current liabilities balance by 247 percent had affected to the deterioration of the above balances.

- (b) The gross profit ratio in 2021 and 2022 were 18 percent and 28 percent respectively and the net profit ratio prevailed at 12 percent in 2021 had deteriorated to 6 percent in the year under review. The increase of administrative expenses by Rs. 102,417,015 had mainly affected to that.

3. Operational Review

3.1 Identified Losses

	Audit Observation	Comments of the Management	Recommendation
(a)	An aggregate surcharge of Rs.1,352,748 had been paid as Rs.1,288,789 and Rs.63,959 respectively due to non-payment of Rs.3,922,472 which was the contribution in relation to Employees' Provident Fund from May 2021 to April 2022 and the contributions to be paid to the Employees' Trist Fund on behalf of the employee in 2022.	The all instalments for Employees' Trust Fund had been paid up to now. The officers who had served in the period with regard to the delay payments are not in the institute now.	The action should be taken to duly pay the statutory payments and avoid the surcharge.
(b)	Due to purchase of 1,078,049.69 kg of raw turmeric at a cost of Rs.177,878,198 by Board from 22.02.2022 to 04.11.2022 under the National Program for purchase of raw turmeric harvest without a proper forecast on requirement in 2022, 62,148.5Kg of dry turmeric or 44 percent of overall dry turmeric production had remained at the end of year under review. A loss of Rs.69,875,333 had occurred to Board owing to auction of 57,563.5 kg of turmeric fingers worth of Rs.98,003,585 (57,563.5 x 1702.53) from this excess dry turmeric stock at a price of Rs.28,128,252 under the approval of Board of Directors in 2023.	It is agreed with the observation. With the stoppage of import of turmeric, the turmeric prices had increased in the market and the farmers had largely engaged in the turmeric cultivation in the country. Therefore, there was an issue of selling the turmeric production in the country due to increase of turmeric production. Consequently, the action had been taken to purchase these turmeric stocks through Spices and Allied Products Marketing Board by the intervention of the government mechanism taking into consideration the providing of a solution for such issue as a national requirement. Accordingly, 1,078,049.69 kg of raw turmeric had been purchased and since the turmeric supply existed during that period of time had increased; this national task had been fulfilled based on the theme called "maximum price for farmers, relief price for customers". Due to increase of turmeric supply prevailed during such period, this loss had occurred since the cost incurred couldn't be covered by selling this turmeric stock.	The purchases should be carried out having made a due forecast on the market requirement.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	As per the cabinet decisions for reestablishment of Spices and Allied Products Marketing Board and the orders gazetted by the Minister of Plantations , the pivotal role entrusted to Board is to provide the required facilities to the spices sector and regulate such trade ,the Board had only focused on sale and processing of spices presently and though it had elapsed more than 03 years since the establishment of Board, a systematic plan had not been prepared for achievement of the objectives of the establishment of Board. Similarly, it was also observed in the audit that the steps had not been taken to identify the staff required for that and formulate the necessary regulations.	Owing to the reasons such as non-availability of approval for attachment of the officers for the management posts and the prevalence of the issues in relation to the capacity of minimum staff, the fulfilment of several main objectives of establishment of the institute had been neglected. A Finance Consultant with qualifications had been appointed with the approval of the Secretary of Ministry. The activities are being performed joining with 25 micro, small and medium scale entrepreneurs who carry out spices and allied products for certification of accreditation since third quarter of 2024. With an objective of providing a more price for the spices and allied products, the measures will be taken to participate for the program for purchase spices implemented since 2025, capacity building programs with an objective of focusing the entrepreneurs in this field to the export market under budget allocation 2025 and trade exhibitions for making opportunities for local as well as international market.	The action should be taken to achieve the objectives of establishment of Board.
(b)	It had not been approved the necessity of staff for Information Technology Division having identified and it was observed that the all information systems (EPR System, POS system) implemented in the institute are subject to the monitoring of Management Assistant presently.	The management of the institute who had thoroughly considered the necessity of Information Technology officer for monitoring ERP and POS systems of institute is taking much effort to get approval for a post again.	The action should be taken to approve and recruit the staff for Information Technology Division.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
It was observed non-availability of the officers in senior level, the implementation of all decisions of Board taken by Chairman and General Manager appointed on contract basis is performed by the officers in the lower management and the management assistants and the activities of the officers in low level are not subject to adequate monitoring. Accordingly, it was observed in the audit also that a formal internal control system couldn't be maintained by Board.	It is agreed with the observations. Even though F.R.71 application had been submitted for creation the posts after duly requesting to Department of Management Services through the Ministry for recruitment of the posts in the senior level including Information Technology Officer posts, the recruitments had been suspended as per the provisions of National Budget Circulars No.2022/05,2023/04 and 2024/02. Therefore, these deficiencies had occurred.	The action should be immediately taken to fill the vacancies in the essential posts in senior level.

4 Accountability and Good Governance

4.1 Presentation of the Financial Statements

Audit Observation	Comments of the Management	Recommendation
As per paragraph 6.6 of Guideline on Corporate Good Governance No.01/2021 dated 16 November 2021,even though draft Annual Report along with the financial statements should be presented to Auditor General within 60 days after the end of the financial year, the financial statements and draft annual reports in 2023 had not been submitted to the audit so far and even though the financial statements in 2022 had been submitted to Auditor General on 01 November 2024 delayed 01 year and 07 months, the draft Annual Report in that year had not been forwarded to the audit.	Since the post of Deputy Manager-Finance of the institute had been vacant since 31.08.2022, these deficiencies had occurred. The action will be taken in accordance with the section 6.5.1 of Public Enterprises Circular No.PED/12 dated 02 June 2003 by avoiding these deficiencies in the future. Furthermore, as per the suspension of the new recruitments of the posts on which the salaries are paid by the Consolidated Fund under paragraph No.04(b) of National Budget Circular No.05/2022 dated 02.09.2022 of the Secretary to the Treasury, the new recruitments couldn't be made and since the financial reports not submitted so far are being immediately prepared by the officer who obtains the service to fulfil this task, the steps will be taken to present the financial reports not submitted yet to the audit without delay.	The draft Annual Report along with the financial statements should be presented to the Auditor General within 60 days after the end of the financial year.

4.2 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
As per paragraph 2.3 of Corporate Good Governance Guidelines No.01/2021 dated 16 November 2021, the Board had not prepared a corporate plan and no steps had been taken to clearly and precisely identify the vision, mission and targets of the institute.	The action plan and corporate plan had not been prepared in relation to 2022 and an action plan had been prepared with regard to 2023 and 2024. A workshop had been already conducted for providing the preliminary understanding required for the preparation of the corporate plan of the institute to the staff. Since it is agreed presently for providing the service of the trained officer and the required provisions by the line ministry for preparation of the corporate plan, the action will be taken to immediately submit the said plan having prepared that.	The corporate plan should be duly prepared by Board.