

## **Paddy Marketing Board - 2021**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Paddy Marketing Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 of the National Audit Act, No. 19 of 2018 and the Finance Act, No.38 of 1971 read in conjunction with the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. Due to the delay in the submission of financial statements, the report on the transactions of the Board has been tabled in three languages in Parliament on 18 January 2023. My comments and observations which I consider should be presented to Parliament appear in this report.

I do not express an opinion on the 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 disclaimed based 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 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 intends 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 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to issue an auditor's report on the financial statements of the Board based on the audit conducted in accordance with Sri Lanka Auditing Standards. 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.

## 1.5 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

<b>Non-compliance with Reference to the Relevant Standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The disclosures about the stock issuance policy of the Board and the amount guaranteed by the General Treasury in the issuance of 20,000 metric tons of paddy to Sathosa for Rs.880 million had not been made in the financial statements in accordance with paragraph 36 of Sri Lanka Accounting Standards No. 02.	The steps will be taken to make disclosures in the financial statements 2022.	The steps should be taken to make disclosures about the stock issuance policy and the stock guaranteed by the Treasury in the financial statements in accordance with Sri Lanka Accounting Standards.
(b) Even if the comparative amounts should be restated when correcting the prior period errors as per the paragraph 42 of Sri Lanka Accounting Standards No. 08, the actions had not been taken accordingly and the adjustments of Rs.336,992,907 that had been made in respect of the preceding year had been adjusted to the retained earnings, and had not been disclosed in the financial statements in accordance with paragraph 49 of the standard.	The actions will be taken in future to restate and present the comparative figures for the prior periods in which the error occurred.	In accordance with Sri Lanka Accounting Standards, the comparative amounts should be restated and disclosed in the financial statements when correcting prior period errors.
(c) Although the residual value and useful life of an asset should be reviewed at least at the end of each financial year as per the paragraph 51 of Sri Lanka Accounting Standard No. 16, and if the expected conditions differ from the estimates, such changes should be accounted as a change	The assets will be verified and assessed as well as the adjustments will be made thereto in the coming years.	The residual value and the useful life should be disclosed in accordance with Sri Lanka Accounting Standards regarding the fully depreciated assets.

in accounting estimates in accordance with Sri Lanka Accounting Standard No. 08, the proceedings had not been done in accordance with the standard regarding fully depreciated assets costing Rs.84,132,668 as at 31 December 2021 belonging to 08 categories.

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| (d) | Although there were 19 trade receivable balances that exceeded 04 years amounting to a total of Rs.5,685,811,329, the provisions had not been made for the debtor balances of which the recovery is uncertain in accordance with paragraph 58 of Sri Lanka Accounting Standards No. 36.   | A special committee will be appointed for the suspense balances and the steps will be taken to settle those.  | In accordance with Sri Lanka Accounting Standards, the provisions should be made for the debtor balances of which the recovery is uncertain.  |
| (e) | The cases that had been filed by the Board in the courts against 05 private rice mill owners and a private company to recover a total amount of Rs.10,459,680, and the cases that had been filed by 04 individuals against the Board in the Labor Tribunals and a District Court had not been disclosed in the financial statements in accordance with paragraph 86 of Sri Lanka Accounting Standards No. 37. | The steps will be taken to make provisions or disclose as contingent liabilities in the financial statements. | In accordance with Sri Lanka Accounting Standards, the cases filed in the courts should be treated as contingent liabilities and the disclosures about that should be made in the financial statements. |

### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) When indicating the final stock, the value of 5,316,218 kilograms of paddy had been mentioned as Rs.280,928,112 in the financial statements based on the book value without a physical calculation.	Conducting a physical stock verification annually in the warehouses with large inventories is difficult, and the available physical and human resources for that task are not sufficient.	The final stock should be physically calculated and accounted.
(b) The steps had not been taken to identify and account the deposits amounting to Rs.3,805,475 that had been directly credited to a bank	The proceedings will be done to enter the unidentified deposits into cash books subsequent to	The Steps should be taken to identify and account the direct deposits and other

account on 501 occasions during the period from February 2018 to 30 December 2021, and 16 unidentified deposits amounting to Rs.1,179,892 that had been deposited in a bank account. Further, even if various receipts related to 05 bank accounts amounting to Rs.2,995,793,781 had been remained unsettled for a period of 10 years and 07 months as deposits deposited but not credited to the bank.

verifying from the bank and issuing receipts and to recover the outstanding balances from the relevant officers subsequent to informing the Board of Directors and obtaining the approval if there is a balance to be collected since unsettled transactions are being issuance of receipts for empty cheques.

unidentified deposits, and to settle the deposits not credited even if deposited.

- (c) Although the balances according to the balance confirmations as at 31 December 2021 regarding 02 bank accounts had been Rs.29,806,394 and Rs.40,780 respectively, there was a difference of Rs.4,984,220 as per the cash book since the balances had been Rs.34,806,394 and Rs.25,000 respectively.
- The steps will be taken to correct this debit; which has been entered twice in the cash book, and to enter the deposit amount deposited directly to the bank into the cash book of the year 2022 and to make corrections.
- The actions should be taken to identify the changes occurred and to correct them in the financial statements.
- (d) The settlements related to the advances amounting to a total of Rs.51,926,299 given for the recurrent expenses including paddy purchase operation expenditure of 07 Zonal Offices in the years 2020 and 2021 had not been certified, and as the said value was shown as expenditure and liabilities in the financial statements of the year under review, the loss and liabilities of the year had been overstated by that amount.
- Since the settlement vouchers relating to advances for the years 2020 and 2021 had been certified in the years 2022 and 2023, the adjustments have been made to the profits of the years 2020 and 2021.
- The steps should be taken to accurately account the settlements of advances given to the zonal offices.
- (e) 08 motor vehicles that had been registered in the name of the Board and owned by the Board had not been valued and accounted as at 31 December 2021.
- The vehicles owned by the Board will be valued and accounted.
- All the assets should be valued and accounted.
- (f) Although a provision of 3 percent of the final paddy stock; that is, Rs.1,217,126,761 had been shown under the balance payable from the year 2018 for dry weight, the expenditure related thereto was not verified to the audit.
- A special committee should be appointed and the details should be found as well as the relevant adjustments should be made to settle these balances.
- The accurate supporting documents related to the provisions should be submitted to for the audit.

- (g) In the comparison of the stock reports submitted to the audit by the Anuradhapura Zonal Office for the year 2021 with the stock reports submitted to the head office, there was a difference of 213,749 kilograms in quantity and Rs.10,751,373 in value related to the initial paddy stock, a difference of Rs.555,533 in values of paddy stock purchases, and a difference of 192,103 kilograms in quantity related to the issuance of paddy stocks.
- The error in the opening stock as at 01 January 2021 will be corrected in the financial statements of the year 2022, and the error regarding the variation of 192,103 kilograms of paddy; occurred due to the inclusion of Rs.555,480 incurred for polysac bags and as only the value of paddy was included in the head office report, will be corrected in the financial statements of the year 2022.
- The steps should be taken to account the stocks accurately and to reconcile those with the figures included in the relevant schedules and books.

### 1.5.3 Unreconciled Control Accounts or Records

Item	Value as per the financial statements (Rs.)	Value as per the corresponding reports (Rs.)	Difference (Rs.)	Comment of the Management	Recommendation
(a) Debtors (Food Commissioner's Department)	436,543,583	347,890,000	88,653,583	Since these debtor balances not confirmed are many years old, the balance confirmations will be obtained and the necessary adjustments will be made.	The steps should be taken to present those accurately in the accounts subsequent to reconciling by obtaining the balance confirmations.
(b) Debtors (Lanka Sathosa)	1,126,323,604	1,024,255,120	102,068,484		

### 1.5.4 Suspense Accounts

Item	Amount (Rs.)	Period of Suspense	Comment of the Management	Recommendation
(a) Suspense Accounts	3,049,830,238	Between 2-5 years	Further proceedings will be done subsequent to seeking about the suspense accounts and stocks in transit.	Suspense balances should be identified promptly and the steps should be taken to settle in the financial statements.
(b) Stock in Transit	2,234,953	Over 3 years		

### 1.5.5 Going Concern of the Board

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<p>The Board had continuously reported the deficits ranging from Rs.462,105,320 to Rs.5,894,325,856 during the last 9 years, and the deficit for the year under review was Rs.1,385,111,144. Further, the negative equity capital value had been Rs.14,140,932,491 at the end of the year under review, and due to prevalence of total liabilities exceeding the total assets for a long period, the equity had continuously taken a negative value. Because of this, the ability to continue the Board without obtaining treasury provisions was in an uncertain status. Even if the going concern of the Board was at risk due to such circumstances, the management had not proceeded to give attention on that and take necessary steps and disclose it in the accounts.</p>	<p>No comments have been made.</p>	<p>The management should pay more attention on the going concern of the Board and make the necessary disclosures in the financial statements.</p>

### 1.5.6 Documentary Evidence not made available for the Audit

<b>Audit Evidence Not Provided</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<p>The detailed schedules for 8 receivable balances totaling Rs.461,677,824 and 09 payable balances totaling Rs.65,516,702, and supporting documents for 07 receivable balances totaling Rs.1,703,297,369 and 09 payable balances totaling Rs.253,055,091 had not been submitted for the audit.</p>	<p>Since the balances receivable and payable as at 31 December 2021 are the balances that are many years old, a special committee should be appointed and the details should be found as well as the relevant adjustments should be made to settle these balances.</p>	<p>Written evidence required to verify the value of accounting items should be maintained and submitted to audit.</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The creditor balance of Rs.7,096,359,350 as at 31 December 2021 included Rs.6,934,601,287 over 05 years, Rs.20,621,251 between 04 - 05 years, Rs.3,629,543 between 03 - 04 years, Rs.33,924,190 between 02 - 03 years, and Rs.10,251,678 between 01 - 02 years, and the actions had not been taken to settle those balances.	No comments have been made.	The actions should be taken to settle outstanding creditor balances.

### 1.6.2 Advances

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Out of the outstanding advance balance of Rs.156,188,191 a sum of Rs.54,226,634 had been over 5 years old, Rs.15,948,760 for a period between 2 and 5 years, and Rs.86,012,797 for a period of more than one year, and the actions had not been taken to settle those balances.	The steps will be taken to settle or recover the advances to be settled further from the relevant officers.	The outstanding advances should be settled without delay.

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

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

(i) Financial Regulation 387	Although obtaining overdrafts from a government bank account is prohibited, there was an overdraft balance of Rs.69,449,720 in the cash book as at 31 December 2021 related to a bank account of the Board.	No comments have been made.	The steps should be taken to prevent obtaining of bank overdrafts through a sound financial management.
(ii) Financial Regulation 396	The proceedings had not been made in accordance with the provisions regarding 83 cheques worth Rs.3,063,966,570 issued but not presented for payment in relation to 10 bank accounts and older between 06 months to 05 years as at 31 December 2021.	The necessary actions will be taken in accordance with F.R. 396 regarding the cheques issued but not presented to the bank for payment.	The proceedings should be done as per the Financial Regulations in respect of the cheques not presented for payment.
(iii) Financial Regulation 756 amended by the Public Finance Circular No. 01/2020 dated 28 August 2020.	The Boards of Survey had not been appointed or annual surveys of stores have not been conducted for the past 5 years since the year 2019.	The annual asset verification for stores and assets has been difficult due to the vacancies in executive and other officers of the Board and other special reasons.	The survey of stores should be completed as at the due date and the reports thereof should be submitted for audit in accordance with the provisions of the Circular.
(b) Paragraph 07 of the Asset Management Circular No. 01/2017 dated 28 June 2017	The particulars regarding the assets purchased by the Board since the year 2018 had not been submitted to the Office of the Comptroller General.	There is no asset disposed by the Board, and the actions will be taken to present the particulars on the assets purchased to the Office of the Comptroller General.	The particulars on assets should be submitted to the Office of the Comptroller General.
(c) Paragraph (2) (i) of the Asset Management Circular No. 02/2017 dated 21 December 2017	The steps had not been taken to register 05 vehicles which were not registered in the	The required proceedings will be done to keep the HH-6041 vehicle in	The actions should be taken to register the vehicles that are

name of the Board and but being used by the Board, or to formally transfer those to the institution for which the vehicles have been registered.

the custody of the Board until the vehicle disposal activities are executed in the future (the PG-1133 vehicle has been temporarily given to the Board on the basis of taking back by the Ministry of Wildlife), and to dispose the GD-2079 vehicle after being transferred to the Ministry of Agriculture by the Ministry of Trade, and to take over the KY-5290, KY-7364.

- (d) Public Enterprise Circular No. PED/12 dated 02 June 2003
- The annual reports for the years 2017, 2018 and 2020 had not been tabled in Parliament even by the date of audit; 31 July 2025.
- The annual reports 2017 and 2018 have been submitted for tabling in Parliament, and the annual report 2020 has been submitted for obtaining the approval and certification of the Ministry of Agriculture.
- The steps should be taken to table the annual reports in Parliament before the due date.

**2. Financial Review**  
**2.1 Financial Result**

As per the Financial Statements presented for the Audit, the operating result of the year under review was a deficit of Rs.1,385,111,144, and the corresponding deficit of the preceding year was Rs.1,398,170,883. Accordingly, a deterioration of Rs.13,059,739 was observed in the financial result. This deterioration had been mainly caused by the increase of cost of sales by Rs.2,391,484,523 and the increase of financial expenditure by Rs.183,132,600 while the income had been increased by Rs.2,499,401,268.

### 3. Operational Review

#### 3.1 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The poverty alleviation of the farming community by purchasing harvests at the certified price from the farmers and ensuring food security by maintaining a buffer stock in the country is the prime objective of the Board and the Board had 353 warehouses with a capacity of 326,710 metric tons for the said objective. However, the Board had purchased only 52,444 metric tons of paddy for Rs.2,895,946,648 during the year 2021 and as per the Report of the Central Bank of Sri Lanka - 2021, the food security could not be ensured by maintaining a buffer stock as 147,000 metric tons of rice had to be imported during the year. Further, by 10 April 2025 at the end of the 2025 Maha season, the total paddy stock held by the Board had been only 59.6 metric tons and only 0.02 percent of the total storage capacity had been utilized.</p>	<p>Since the private sector started purchasing paddy exceeding the certified price determined by the government in many areas with the commencement of purchasing paddy by the Board, there was no trend of receiving paddy by the Board. As the Board has to purchase paddy at or below the certified price, the expected targets of purchasing paddy could not be achieved.</p>	<p>The necessary proceeding should be done to achieve the prime objectives of the Board.</p>

#### Management Inefficiencies

3.2			
(a)	<p>Out of the loan of Rs.10,803,000,000 given to the Board by the General Treasury for the purchase of paddy during the period 2008 - 2019, a sum of Rs.6,684,554,538 had not been settled until 18 July 2025.</p>	<p>No comments have been made.</p>	<p>The steps should be taken to utilize the loans obtained efficiently and to settle the treasury loan balance.</p>
(b)	<p>As the Board was unable to repay the pledge loans provided by the Bank of Ceylon and the People's Bank from the year 2012 to 2019 for the purchase of paddy to the Paddy Marketing Board, the General</p>	<p>The Board has not been able to repay the loans taken for the purchase of paddy as per the decisions taken by the government at each stage during the years 2012 - 2019. As the paddy stocks purchased by the Board; based on</p>	<p>The loans should be utilized for the intendant purpose and managed efficiently to generate income.</p>

Treasury had to pay the loan installments, interest and late fees to the above banks from the year 2020 to 2028. Accordingly, the General Treasury had paid a sum of Rs.12,456,567,732 to the two banks on behalf of the Board from the year 2020 to April 2025. An amount of Rs.8,438,865,811 is still to be paid from May 2025 to September 2028.

- (c) Since there was no proper expenditure management, the Board had to pay a late penalty of Rs.1,244,147 on 23 March 2021 for non-payment of installments and interest on other loans taken in addition to the pledge loans.

- (d) According to information received from the Commissioner of Motor Traffic, 98 registered vehicles as the total of the 44 cars registered in the name of the Chairman of the Board, 04 cars in the name of the General Manager, 10 cars, 8 three-wheelers and 32 motorcycles in the name of the Board and under the said address, were not physically available in the Board.

the decisions taken by the government in a manner that satisfied both the farmer and the consumer, have been used for processing rice at a price lower than the purchased price and the cost incurred thereon, a huge loss has been occurred.

During the 2019/20 Maha season, the paddy stocks have been purchased through the Board and the District Secretaries from the loans obtained by the Paddy Marketing Board and have been converted into rice and released to the market. Therein, a portion of the loans obtained has been settled by the District Secretaries in the same year, and the remaining amount has been given to the Board from the income generated from the sale of paddy. Due to the delay in receiving money at that time and the delay in disbursing the money receivable from selling on credit of the paddy stocks of the Board turning into rice through supermarkets, the interest amount on the loans could not be paid as at the due date.

The details only about 08 motorcycles purchased in the year 2012 and in the custody of field officers are available in the institution. 30 motorcycles had been provided under an interest-free loan scheme for Assistant Regional Managers on the condition that the Board retains the ownership of the vehicle for five years from the date of issuance. Since the payments for 02 of these motorcycles were not completed, the ownership had not been

The loan installments and interest should be paid as scheduled.

The actions should be taken to investigate the vehicles registered in the name of the Board and transfer the vehicles not owned by the Board to the relevant parties.

transferred. Even if one officer had accepted the transfer documents, those had not been accepted by the Office of the Commissioner of Motor Traffic, and the ownership of 05 more motorcycles had not been taken over by the Board. All these motorcycles are in the possession of those officers and the institution does not have details about the other vehicles registered in the name of the Board, the name of the General Manager of the Board and under the address of the Board.

- (e) In the examination of sample sales for 03 months of the year under review, it was found that the agreements had not been entered into with the customers in relation to sales on credit amounting to Rs.819,570,580 carried out with 03 institutions, and the sales had been done without extending the agreements available in relation to 04 other institutions.
- Since rice sales have been done for the coming years as well in accordance with the agreements related to the previous year, the steps will be taken to carry out those activities by entering into agreements.
- The agreements regarding the sales on credit should be entered into and the proceedings should be done in accordance with those agreements.

#### 4. Accountability and Good Governance

##### 4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days upon the end of the accounting year in accordance with paragraph 6.6 of the Operational Manual for State-Owned Enterprises introduced by Circular No. 01/2021 dated 16 November 2021, the financial statements for the year 2021 had been submitted for audit on 18 March 2025 with a delay of about 3 years, and the draft annual report had not been submitted for audit until the date of audit; 31 July 2025.	No comment had been made.	The steps should be taken to submit the financial statements and draft annual reports for audit before the due date.