

Palmyrah Development Board - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Palmyrah Development Board as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- (a) Cost of buildings and fittings to the value of Rs. 10,328,337 had been capitalized under the fittings at others buildings/ land. However, a provision for accumulated depreciation of Rs. 5,528,147 had been made during the year under review, although the ownership of those lands and buildings were not belonging to the Board.
- (b) Building of Industrial Complex at Karainagar costing Rs. 3,367,515 and Fibre Centre at Delft costing Rs. 1,131,225 had been capitalized to building account, and made a provision for accumulated depreciation of Rs. 1,951,376 and Rs. 339,366 respectively. However, the ownership of the lands were not belonging to the Board.
- (c) Non current assets costing Rs. 48,107,122 had been erroneously classified as other assets and depreciated at the rate of 20 per cent annually.
- (d) Palmyrah seed plantation cost of Rs. 20,395,447 had been capitalized as other financial assets and no proper accounting treatment had been followed.

1.2.2 Un reconciled Control Accounts

Considerable differences amounting to Rs. 23,145,291 had been observed between the subsidiary ledger balances and balances included in the financial statements for the year under review, such as Board members expenditure, over time payments, travelling expenses, salary control accounts and depreciation etc.

1.2.3 Accounts Receivable and Payable

Following observations are made.

- (a) Action had not been taken to recover an advance of Rs. 119,320 receivable from staff member as disclosed in the financial statements for more than three years.
- (b) A portion of Colombo Office building had been sublet to the Ministry of Social Services but the arrears of rental amounting to Rs. 1,220,000 had not been recovered from the relevant party. However, this amount had been written off in 2011 without proper authority obtained from the Chief Accounting officer concerned and action had not been taken to carry out the direction given by the COPE on 09 July 2012 up to 31 July 2013.
- (c) A net amount of Rs. 2,464,642 had been written off as previous year's adjustment in 2011 after deduction of payables from receivables with the approval of the Board only. In this regard, although the COPE had directed to initiate action to recover the receivables, the Board had not taken action to bring the correct amount to the financial statements and to recover the same during the year under review.
- (d) The Board had not taken action to settle the five creditors amounting to Rs. 26,308 for more than two years.
- (e) Even though the audit fee bills totalling Rs. 1,665,344 had been received for the period of 1991 to 2010, no action had been taken to settle the audit fees payable for the period of nine years.

1.2.4 Lack of evidence for Audit

Thirteen items in the accounts aggregating Rs. 59,448,010 could not be satisfactorily vouched in audit due to non- availability of title deeds, fixed assets register, payment vouchers, daily running charts, log books, agreements, etc.

1.2.5 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non- compliance with the Laws, Rules, Regulations and Management Decisions observed in audit are given below.

(a) Acts

- (i) Sections 12 and 14(3) of the Finance Act No. 38 of 1971.
- (ii) Section 6(2)(6) of part II of the Payment of Gratuity Act No.12 of 1983
- (iii) Consumers Protection Act No.01 of 1979.

(b) Financial Regulations:

Nos. 110, 135, 272(3), 350, 371(2)(b), 382, 383, 445, 446, 715, 751(i), 756(3), 756(5), 757(1)(c), 757(2)(a), 757(2) (c), 850(i), 1010(b), 1644, 1646 and 1654(b).

(c) Establishments Code of the Democratic Socialist Republic of Sri Lanka

- (i) Section 03 of Chapter VIII
- (ii) Section 05 of Chapter XII

(d) Sri Lanka Accounting Standards (LKPSAS):

Nos. 01 and 02 and 38.

(e) Procurement Guidelines 2006

- (i) Section 5.3.5 of Chapter 05
- (ii) Section 2.6.1 of Chapter 02

(f) Circulars.

- (i) Public Enterprises Department Circular No.51 of 15 August 2008 and No.58 (2) of 15 September 2011.
- (ii) Paragraph 2.4.1 of the Circular No. MP/6/1/96 dated 20 April 1996 of the Ministry of Finance and Planning.

(g) Public Enterprises Circular No. PED/12 of 02 June 2003.

- (i) Paragraphs 4.2.2 and 4.2.5.

1.2.6 Un authorized Transactions

Even though a sum of Rs. 24,048,000 had been received for capital expenditure for the year under review, a sum of Rs. 157,389 from this allocation had been utilized for the recurrent expenditure without proper authority.

1.2.7 Irregular Transactions

Following observations are made.

- (a) The Chairman of the Board had been reimbursed the fuel expenses of Rs.619, 607 in excess of the limits during the year under review.
- (b) The General Manager of the Palmyrah Development Board had been permitted to act as a Secretary to the Board since its 03rd meeting to 12th meeting and had been paid a sum of Rs. 20,000 on 08 December 2012 to attend ten (10) meetings of the Board as an allowance for the Secretary in contrary to the Paragraph 3.8 of the above Public Enterprises Circular No. PED/12 in 02 June 2003.

- (c) Allowances of Rs. 107,750 had been paid for three observers of the Board for the year under review in contrary to the Public Enterprises Circular No. PED/ 51 dated 15 August 2008.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, the working of the Board had resulted in a net loss of Rs. 9,763,832 for the year under review after taking into account the Government grant of Rs. 55,664,000 for recurrent expenditure as compared with the corresponding net loss of Rs. 3,145,965 for the preceding year after taking into account the Government Grant of Rs. 55,000,000 for that year, thus indicating a further deterioration of Rs. 6,617,867 in the operating financial results of the Palmyrah Development Board.

2.2 Analytical Financial Review

The total expenditure for the year under review was Rs. 96,920,918 and out of this, Rs. 48,669,700 had been incurred for personal emoluments and it represented 50% of the total expenditure.

3. Operating Review

3.1 Performance Review

Following observations are made.

- (a) Five model farms had been running at total losses of Rs. 4,063,163 during the year under review as compared with that of Rs. 3,084,332 for the preceding year as per details given below.

<u>Name of the Farm</u>	<u>Total Revenue</u> <u>Rs</u>	<u>Total Cost</u> <u>Rs</u>	<u>Net Loss-</u> <u>Rs</u>
Kudathanai	Nil	475,675	475,675
Mamunai	Nil	759,630	755,880
Delft	Nil	61,180	61,180
Puliyankulam	Nil	808,704	808,704
Weeravila	112,505	2,066,984	<u>1,961,724</u>
			<u>4,063,163</u>

(b) Even though the sufficient employees assigned to Weeravila Model Farm and paid total salary of 93% of the

total cost, operation of the Farm made a huge net loss of

Rs. 1,961,724 against its revenue of Rs. 112,505 during the year under review.

- (c) Following Seven Models farms with the total extent of 567 acres had been allowed to idle fully. Details are as follows.

<u>Location of the Farm</u>	<u>Extent of the Land (Acres)</u>
Mamunai	436
Singainagar	50
Utruppulam	50
Kawtharimunai	10
Ariviyal Nagar	07
Mulankavil	02
Naravelikkulam	<u>12</u>
Total	<u>567</u>

3.2 Management Inefficiencies

Following observations are made.

- (a) Even though the huge demand available at Tissamaharama for the products of Handicraft items produced at Weeravila Model farm, Tissamaharama centre purchased those similar items at Colombo and Batticaloa which lead to high transportation cost.
- (b) Even though there are huge demand available for the Palmyrah leaves handicraft items at Tissamaharama, the Board had not taken action to supply those items in order to meet the excess demand.
- (c) 6,085 Nos of Palmyrah seeds out of 11,477 seeds purchased, had been distributed between October to December 2012 to 18 Grama Niladhari Divisions in Jaffna District. Following observations are made in this regard.
 - (i) Progress review report on distribution of seeds was not made available to audit.
 - (ii) Position and progress of the plantation of Palmyrah seeds stock balance of 5,392 seeds could not be justified in audit due to non availability of progress review report.
- (d) The Board had not defined an effective distribution channel to make cost effectively, and the Board had spent Rs.38, 118 to distribute the Palmyrah seeds valued at Rs.6,085.
- (e) Coordinators of the Palmyrah Development Board had been allowed to purchase 101,477 Nos of Palmyrah seeds valued at Rs. 199,877 at different prices in various circumstances.

3.3 Assets Management

Slow moving, idle and underutilized assets valued at Rs. 1,868,644 had been observed in three centres of the Board during the year under review.

3.4 Uneconomic Transactions

Following observations are made.

- (a) A Sum of Rs. 21,600 had been paid to a Licensed surveyor and a Leveller to survey the land of the Regional Office at Kilinochchi on 08 December 2012 without requesting the Survey Department and without the approval of the Board.
- (b) A sum of Rs. 25,500 had been paid for Loading charges and Seeds bedding charges, without uniformity in connection with 57,000 numbers of seeds.

3.5 Contract Administration

Details of the Leased hold assets had not been made available to audit and payables and receivables in connection with the “Thickam Distillery Project” had not been brought to the financial statements by the Board over last five years in terms of Lease Agreement entered into with the Vadamaradchi Palm Development Cooperative Society Cluster Limited. Further no action had been taken to recover the Royalty and lease rentals, failure to comply with the taking over back the Thickam Distillery Project as per the agreement entered, and no progress reports were made available in this connection.

3.6 Delays in Project

Advances of Rs. 3,055,834 had been paid to the contractor during the years 2003, 2004 and 2012 for the construction of Building for industrial complex at Karainagar. Even though it was agreed to complete the works on 07 November 2003, the works had not been completed even up to 31 May 2013.

3.7 Human Resources Management

Cadre details for the year under review and the vacancies prevailed as at 31 December 2012 are given below.

<u>Level/Grade</u>	<u>Number of Approved Cadre</u>	<u>Number of existing Cadre</u>	<u>Number of Vacancies/(Excess)</u>
Senior Level	02	01	01
Tertiary Level	22	14	08
Secondary Level	89	63	26
Primary Level	<u>111</u>	<u>72</u>	<u>39</u>
Total	<u>224</u>	<u>150</u>	<u>74</u>

3.8 Utilization of Vehicles

A Sum of Rs. 758,284 had been spent for repairs and maintenance of vehicles. However, no Log Books had been maintained to record them in terms of F.R 1646.

3.9 Items in Continuous Nature.

Although a sum of Rs. 4,980,000 had been paid for the year 2012 as rental for 3 floor of the office building at Bambalapitiya, it had not been utilized for the intended purpose of the Board for last four years.

4. Accountability and Good Governance

4.1 Corporate Plan

A corporate plan had been prepared for year 2012. However the progress of the targets indicated in the action plan had not been reviewed periodically.

4.2 Annual Action Plan

Action Plan had been prepared for the year 2012. However the progress of the targets indicated in the action plan had not been reviewed periodically.

4.3 Internal Audit

An Internal Audit division had been established with one internal auditor only. However no other staff had been appointed for the effective operation of the division.

4.4 Audit and Management Committee

The Board has established an Audit and Management Committee and three Audit and Management Committee meetings had been conducted in 2012. However, according to the Public Enterprises Circular No. PED/31 dated on 01 July 2005, atleast four meetings should be held for an year.

4.5 Tabling of Annual Report

The Annual Report for the year 2011 had not been tabled in Parliament up to 31 May 2013 in terms of Section 14(3) of the Finance Act.

5. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Board by my detailed report issued in terms of Section 13(7)(a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Receivables and Payables
- (c) Utilization of Funds
- (d) Assets Management
- (e) Human Resources Management
- (f) Utilization of Vehicles
- (g) Budget