

Sri Lanka Cashew Corporation – 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 Sri Lanka Cashew Corporation as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

Non-compliances with the following Sri Lanka Accounting Standards were observed during the course of audit.

- (a) LKAS 1 The detailed income statement had not been presented in the specified format framework.

- (b) LKAS 2 Even though the lower value out of the cost and the net realizable value should be adopted for the valuation of stocks, the cost of the fully finished cashew kernels of the Sales Outlets and the Processing Centres had been shown as 80 per cent of the selling price without computing the cost and the net realizable value. Similarly the stocks of unprocessed kernels up to 90 per cent and 75 per cent also had been valued at the above cost rate.

- (c) SLFRS 1 In the preparation of the Statement of Financial Position, the fixed assets other than lands and motor vehicles had been shown at cost less accumulated depreciation without being revalued. The Chairman informed that in view of the large number of external offices and fixed assets it is

very difficult to revalue them simultaneously.

- (d) LKAS 16
- (i) The matters that should be disclosed in connection with the lands and motor vehicles shown at the revalued amounts had not been disclosed.
 - (ii) Even though the Corporation does not possess the legal title to the other estates with cultivations except the Processing Centres at Nedagamuwa and Puttalam, a sum of Rs.3,083,279,850 had been shown in the accounts as the revalued amounts of those estates. Nevertheless, the Chairman informed that these estates had been handed over by the Government for cashew cultivation from the year 1973.
 - (iii) Out of the non-current assets except the lands, buildings and motor vehicles, 57 per cent costing Rs.18,752,624 had been fully depreciated. Nevertheless, no action had been taken for the revaluation though the Corporation utilizes those assets continuously.
- (e) LKAS 18
- The interest income from employees' loans had not been recognized at an effective interest rate.
- (f) LKAS 19
- (i) Action had not been taken to carry out an actuarial valuation of the provision made for gratuity by an Actuary for the recognition of the actuarial profits and losses.
 - (ii) Action had not been taken to invest the Gratuity Fund.
- (g) LKAS 41
- Action had not been taken for accounting and disclosure of the biological assets of the Cashew Corporation in terms of this Standard.

1:2:2 Accounting Policies

According to Sri Lanka Accounting Standard 01, a summary of the significant accounting policies adopted by a business for the preparation and presentation of financial statements should be disclosed. Nevertheless, the following policies had not been disclosed.

- (a) Revenue Recognition
- (b) Measurement of Property, Plant and Equipment

1:2:3 Accounting Deficiencies

The following deficiencies were observed.

- (a) Depreciation on fixed assets amounting to Rs.426,876 had been included in the expenditure incurred from Capital Grants.
- (b) Even though 255,369 cashew seedlings had been transferred to the Extension Division, Seed Gardens and the Research and Development Division in the year 2011 at a cost of Rs.20,231,507, the actual cost of the cashew seedlings amounted to Rs.9,756,271, thus resulting in the overstatement of the profit on the year 2011 by a sum of Rs.10,475,236. That had not been rectified in the year under review.

1:2:4 Accounts Receivable and Payable

The external debtors balance brought forward from the period prior to the year 2010 amounted to Rs.2,003,354 as at the end of the year under review. The progress of the recovery of those debts had been at a weak level.

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with the laws, rules, regulations and management decisions observed are given below.

| Reference to Laws, Rules, Regulations, etc. | Non-compliance |
|--|---|
| ----- | ----- |
| (a) Employees' Provident Fund Act, No. 15 of 1958 and the Employees' Trust Fund Act, No. 46 of 1980. | Even the computation of the contributions to the Employees' Trust Fund and the Employees' Provident Fund should be made on the salary inclusive of the Cost of Living Allowance and the Special Cost of Living Allowance, contrary to that, the contributions had been computed on the basis of the basic salary only. As such contributions amounting to Rs.3,248,394 had been underpaid during the year under review. |
| (b) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 8.3.5(a) | In addition to the official motor vehicle of the Chairman, a motor vehicle hired at Rs.40,000 per month had also been given for his use. |

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the working of the institution for the year ended 31 December 2012 had resulted in a surplus of Rs.44,233,831 as compared with the corresponding surplus of Rs.20,448,951 for the preceding year. As such, an

increase of Rs.23,784,880 in the surplus of the year under review as compared with the preceding year was observed. The increase of sales income under the Divineguma Project during the year under review by a sum of Rs.35,608,145 had been the reason for the improvement. A sum of Rs.73,076,037 had been received as the Government grant in the year under review as compared with the sum of Rs.81,255,721 received in the preceding year.

2:2 Analytical Financial Review

 According to the financial statements presented, the financial results of the institution for the year ended 31 December 2012 as compared with the position for the year ended 31 December 2011 is given below.

(a) Commercial Division

| | <u>Estates and Sales Division</u> | | | <u>Commercial Nursery Division</u> | | |
|-------------------------|-----------------------------------|-------------|--|------------------------------------|------------|--|
| | 2012 | 2011 | Increase (Decrease) in Income and Increase (Decrease) in Expenditure as a percentage | 2012 | 2011 | Increase (Decrease) in Income and Increase (Decrease) in Expenditure as a percentage |
| | Rs. | Rs. | % | Rs. | Rs. | % |
| Total Income | 57,375,124 | 57,582,062 | (0.3) | 101,947,112 | 66,106,905 | 54 |
| Total Expenditure | 61,367,823 | 59,372,280 | 3 | 36,115,643 | 25,122,425 | 44 |
| Operating Profit (Loss) | (3,992,699) | (1,790,218) | 123 | 65,831,469 | 40,984,480 | 61 |

(b) Service Division

| | 2012 | 2011 | Increase (Decrease) in Income and Increase (Decrease) in Expenditure as a percentage | |
|-------------------|-----------|------------|--|------|
| | Rs. | Rs. | % | |
| Government Grants | Capital | 16,890,069 | 33,630,222 | (50) |
| | Recurrent | 58,580,000 | 50,000,000 | 17 |

| | | | |
|--|-------------|-------------|-------|
| Profit of Commercial Division | 61,838,770 | 39,194,262 | 58 |
| Other Income | 1,362,562 | 2,210,122 | (38) |
| | ----- | ----- | ----- |
| Total Income | 138,671,401 | 125,093,806 | 11 |
| Total Expenditure of Services Division | 94,437,570 | 104,585,656 | (10) |
| | ----- | ----- | |
| Overall Net Profit | 44,233,831 | 20,448,950 | 116 |
| | ===== | ===== | |

(c) The operating loss of the Estates and Sales Division as compared with the year 2011 had increased by 123 per cent.

(d) The sale of cashew seedlings for the Divineguma Programme had increased the sales income of the Corporation by 59 per cent and 276 per cent in the years 2011 and 2012 respectively.

2:2:2 Financial Structure

According to the accounts presented, the financial structure of the institution as at 31 December 2012 as compared with that as at 31 December 2011 is given below.

| Resources | As at 31 December | | Percentage of Variance |
|-----------------------------|-------------------|---------------|------------------------|
| | 2012 | 2011 | |
| ----- | ----- | ----- | ----- |
| | Rs. | Rs. | % |
| Government Grants – Capital | 34,959,185 | 258,821,820 | (86) |
| Other Institutional Grants | 17,910,572 | 13,570,026 | 32 |
| Capital Reserves | 3,100,200,606 | 4,464,178,935 | (30) |
| Long Term Liabilities | 37,784,779 | 27,834,961 | 36 |
| Profit/Loss/Brought forward | 117,787,907 | (88,802,915) | 233 |
| | ----- | ----- | |
| | 3,308,643,049 | 4,675,602,827 | |
| | ===== | ===== | |
| Utilisation | | | |

| | | | |
|---------------------------------|---------------|---------------|------|
| ----- | | | |
| Fixed Assets | 3,141,510,372 | 4,509,793,519 | (30) |
| Expenditure on Cultivated Lands | 51,601,489 | 107,039,021 | (52) |
| Other Minor Projects | 707,535 | 739,277 | (4) |
| Net Current Assets | 114,823,653 | 55,031,010 | 98 |
| | ----- | ----- | |
| | 3,308,643,049 | 4,675,602,827 | |
| | ===== | ===== | |

- (i) Out of the bearing 586 hectares of the Corporation, 82 per cent or 481 hectares had passed the high yielding age of 30 years.
- (ii) Even though the market value of 1 kilogramme of cashew nuts amounted to about Rs.270, the cost of production of 1 kilogramme of cashew nuts at Puttalam Estate amounted to about Rs.925.

3:2 Management Inefficiencies

The matters observed are given below.

- (a) The cashew crop of the Mirijjawila Estate in the year 2012 had been 288 kilogrammes valued at Rs.64,822. As the administrative expenditure and the direct expenditure for the year amounted to Rs.2,141,154 the operating loss for the year 2012 amounted to Rs.2,076,332.
- (b) Even though the income of the Puttalam Estate for the year 2012 amounted to Rs.2,962,981, the direct and administrative expenditure amounted to Rs.9,551,318 and the operating loss for the year 2012 amounted to Rs.6,588,067.

3:3 Identified Losses

A loss of Rs.72,754,773 had been incurred in the year under review due to the elimination of the physically non-existent buildings, equipment and the expenditure on the matured areas and the immatured areas of the Kondachchi, Mankarni and Laggala Estates and elimination of the lands, buildings, expenditure on the matured areas and the expenditure on immatured due to the takeover of the Mirijjawila Estate, Mirijjawila Circuit Bungalow and the Mirijjawila Sales Centre by the Government. This loss included the expenditure of Rs.2,710,143 spent on carrying out repairs to the Mirijjawila Circuit Bungalow despite the notice of takeover of the Circuit Bungalow being made to the Corporation. The Chairman informed that the loss was incurred due to the factors beyond the control of the Corporation.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the institution from time to time. Special attention is needed in respect of the following areas of control.

- (a) Takeover of Returned Cashew
- (b) Storage of Stocks of Cashew
- (c) Motor Vehicles Control