

## **Paddy Marketing Board - 2020**

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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 2020 comprising the statement of financial position as at 31 December 2020 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 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 the Finance Act, No.38 of 1971. 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 22 November 2022. 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>
In terms of Paragraph 51 of Sri Lanka Accounting Standard 16, residual value and useful life of an asset should be reviewed at least at the end of each financial year and if the expectations differ from the estimates, that difference should be accounted for as a difference in an accounting estimate as per LKAS 8. Nevertheless, the residual value and the useful life of the fixed assets of the Board amounting to Rs. 951,765,591 written down value as at 31 December 2020 had not been reviewed.	Certain assets owned by the Paddy Marketing Board have been fully depreciated by the end of the year 2020. Although they are still in use, they have not been revalued. Accordingly, necessary action will be taken to revalue and account for those fixed assets in due course.	Action should be taken in accordance with Accounting Standards.

### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although the depreciation value of the assets purchased from the capital grants of the Board for the year under review amounted to Rs. 72,239,655, it had been accounted for as the deferred income of Rs. 149,431,804 exceeding the above value. As such, the income of the year had been overstated by Rs. 77,192,149 and the non-current liabilities had been under stated by that amount.	This will be corrected in the preparation of accounts for the year 2021.	Accuracy should be ensured in the process of accounting.

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| (b) | Even though the value of the closing stock for the preceding year amounted to Rs. 99,391,958, the opening stock balance for the year under review had been stated as Rs. 274,658,564 and the remaining stock value as at 31 December 2020 had been stated as Rs. 577,498,157 in the financial statements. Hence, the stock had been overstated by Rs. 174,666,606.  | Action will be taken to correct this matter in the preparation of accounts, 2021.                        | Accuracy should be ensured in the process of accounting.                                   |
| (c) | Direct sales cost of Rs. 35,029,837 to be included in relation to the computation of direct cost had been included in the administrative expenditure.   | Action will be taken to correct this in the year 2021.   | Information should be included in the accounts in a manner disclosing its actual position. |
| (d) | Depreciation of Rs. 1,000,000 for the year under review in relation to the stock control system purchased in the year 2018 had not been accounted for, and as such, provision for depreciation for the year had been understated by Rs. 1,000,000.  | Related corrections for the accumulated depreciation will be made through the accounts of the year 2021. | Depreciations should be correctly accounted for.   |
| (e) | Interests of Rs. 3,755,587 receivable on fixed deposits for the year under review had not been brought to account.  | Action will be taken to correct this matter through the accounts of the year 2021.                       | Receivable interest income should be correctly brought to account.                         |
| (f) | The value of the deposits that had not been credited to the banks despite being deposited in 08 current accounts was Rs. 54,707,458 and those deposits related to the period from 2011 to 2020. Those uncredited deposits had not been identified even by the year under review and the period of delay ranged from 9 years to 01 months.   | Action will be taken to settle the deposits not credited before 2020.                                    | Action should be taken to identify and account for the deposits.                           |
| (g) | Although there was a bank overdraft of Rs. 69,449,720 in the Board's current account No. 014-1-002-7-0002717 maintained in the People's Bank as at 31 December 2020 according to the cash book, there was no such overdraft according to the balance confirmations issued by the bank. As per the bank reconciliation statement presented, the value of the uncredited deposits amounted to Rs. 2,978,447,880 and the value of unenchashed cheques, despite their issuance, amounted to Rs. 3,047,897,600. Action had not been taken to identify the above balances | Action is being taken to identify the balance of this account and settle the overdraft in the cash book. | Overdraft should be identified and brought to account.                                     |

and settle the bank overdraft in the cash book. Furthermore, it was observed that the aforementioned balance remain unchanged from the year 2018.

- (h) A sum of Rs. 2,234,953 had been shown as the stocks in transit in the financial statements of the year under review. This balance has remained unchanged from the year 2018 and had not been settled even by the end of the year under review.
- Arrangements are being made to settle the balances due from the mill owners.
- Accounts should be corrected by identifying the balances.

### 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
(i)	Debtors (Department of Food Commissioners)	436,543,583	There are no balances	436,543,583	Action will be taken to confirm the difference between balances in the future.	Action should be taken to make relevant corrections by carrying out reconciliations.
(ii)	Debtors (CWE)	1,392,190,102	998,796,552	393,393,550	Action will be taken to confirm the difference between balances in the future.	Action should be taken to state correct values in the accounts by obtaining the balance confirmations from the debtors as well and reconciling such balances.
(iii)	Debtors (Lanka Sathosa)	809,417,974	706,324,615	103,093,359	Action will be taken to confirm the difference between balances in the future.	Relevant corrections should be made by obtaining and reconciling balance confirmations.

(iv)	Creditors (CWE)	1,202,897	92,189,699	90,986,802	Action will be taken to confirm the difference between balances in the future.	Do
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#### 1.5.4 Suspense Account

	Item	Amount (Rs.)	Period of Suspense	Comment of the Management	Recommendation
(i)	Paddy Stock Variance	3,031,256,050	Exceeding 4 years	Arrangements are being made for the settlement.	Action should be taken to settle accounts by identifying such purchasing expeditiously
(ii)	Uncertain purchasing of paddy	18,574,188			
(iii)	Unidentified purchasing of paddy.	70,818,163	Exceeding 9 years		

#### 1.5.5 Going Concern of the Board

	Audit Observation	Comment of the Management	Recommendation
(a)	As the paddy stocks purchased by the Board had been sold at a price lower than the market price and the cost, action was taken to secure credit facilities from the General Treasury and state banks annually to procure the funds required for the purchase of paddy for upcoming season and to cover the loss incurred from the sale. Out of the credits and advances obtained from 02 state banks for paddy purchasing and operating expenses from 2009 to 2014, the accumulated amount to be paid by 31 December 2020 was Rs. 22,652.79 million, and the accumulated interest was Rs.28.67 million.	Not commented.	Attention should be focused on the going concern of the Board.
(b)	The value of net assets of three preceding years and the year under review had continuously decreased from the negative value of Rs. 12,548.69 in the year 2017 to Rs. 13,266.65 million in the year 2018, further decreasing to a	Not commented.	-Do-

negative value of Rs. 14,176.43 million in the year 2019 and to a negative value of Rs. 14,656.26 million during the year under review. It had adversely affected the going concern of the Board. Accordingly, it was observed that the Board lacked financial strength to meet its liabilities without financial assistance from the Government.

#### 1.5.6 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence Not Furnished	Comment of the Management	Recommendation
	Rs.			
<b>Debtors Balances</b>				
(i) ----- Sale of paddy by the Ministry	32,688,410	} Confirmation Letters	The letter dated 22.05.2023 has been sent requesting to arrange a meeting with the heads of relevant institutions headed by the Secretary to the Ministry as pointed out by the Audit and Management Committee and the forensic audit, in order to recover the values in the debtors balances.	Evidence required for the confirmation of values should be obtained.
(ii) Receivables from the Ministry	264,154,465			
(iii) (North – Sea)	1,000,000			
(iv) Palmira Development Authority	700,000			
(v) Receivables from mill owners	61,699,951			
(vi) Receivables (District Secretary, Ampara)	2,458,086	Detailed Schedules		
(vii) Receivables (District Secretary, Hambantota)	18,351,743	Detailed Schedules		

(viii)	Rice mills exports	204,960,877			
(ix)	Rice mills (Sale of paddy on credit basis)	44,399,804	} Detailed Schedules	The letter dated 22.05.2023 has been sent requesting to arrange a meeting with the heads of relevant institutions.	Written evidence should be maintained to confirm the values in the items of accounts.
(x)	Rice mills (CWE & WF – 2016)	8,027,716			
(xi)	Purchasing Control Account	49,743,530			

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
The debtors balance as at 31 December 2020 amounted to Rs. 3,706,737,098 and it included the balances of Rs. 1,931,134,627 related to a period of more than 05 years and Rs. 737,628,510 related to a period between 03 and 05 years.	A letter has been sent requesting to invite the heads of the relevant institutions and prepare a meeting with them and we are expecting the answers in this regard.	Action should be taken to recover the debtors balances.

### 1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
The creditors balance of Rs. 7,115,835,727 as at 31 December 2020 included the balances of Rs. 6,723,668,939 related to a period of more than 04 years, Rs. 278,938,959 related to a period between 03 and 04 years, Rs. 64,973,673 related to a period between 01 and 03 years, and Rs. 48,254,157 related to a period of less than 01 year. This balance also included a sum of Rs. 6,684,554,538 payable to the Treasury and no action had been taken to settle that balance even up to 30 April 2023.	Necessary arrangements are being made to settle the balances related to the values existing in the creditor balances and due to the lack of provision with the Paddy Marketing Board, it has not been able to pay the amount due to the treasury thus far.	Action should be taken to settle old balances.

### 1.6.3 Advances

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The balance of advances that remained unsettled from previous years stood at Rs.12,131,961 and it included the old balances Rs.708,334 remained for more than one year, a balance of Rs.469,734 for more than two years and the balance of Rs.10,817,161 for more than three years.	Necessary arrangements are being made to settle the balances.	Action should be taken to settle advances without delay.

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

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R.396	No action had been taken in respect of 37 cheques worth Rs, 4,771,475 that had not been presented for payment despite the lapse of 2 years to 6 months from their issuance as at 31 December 2020 relating to 04 bank accounts.	Action will be taken to ascertain whether the details on the balance were submitted to the bank and to submit the reply to you without delay.	Action should be taken to identify the balances and make corrections accordingly.

## 2. Financial Review

### 2.1 Financial Results

The operations of the Board for the year under review resulted in a loss of Rs. 1,248,739,079 as compared with the corresponding loss of Rs. 741,663,275 in the preceding year. Accordingly, a deterioration of Rs. 507,075,804 was observed in the financial results. This deterioration was mainly due to decrease in the other income by Rs. 36,796,638 and increase in the financial expenditure by Rs. 717,225,824 in the year under review compared to the preceding year.

## 3. Operating Review

### 3.1 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The poverty alleviation of the farming community by purchasing harvest at the certified price from the farmers and ensuing food security by maintaining buffers stock in the country are the prime objectives of	While pointing out all the potentials of the Paddy Marketing Board, five Cabinet papers have been	Action should be taken to achieve objectives.



the Paddy Marketing Board. Although there were 356 storages belonging to the Board with a capacity of 327,285 MT in the 07 provinces to achieve those objectives, the Board had only 7511 metric tons of paddy in the seven provinces as at 26 July 2023. Accordingly, it was observed that only 2.3% of the total storage capacity was in use as at that date. Further, a sum of Rs. 105,019,230 had been spent as salaries of 136 employees of the Board.

submitted in order to purchase paddy in 2022/23 Maha season and 2023 Yala season.

**4. Accountability and Good Governance**

**4.1 Presentation of Financial Statements**

**Audit Observation**

**Comment of the Management**

**Recommendation**

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, financial statements and draft annual report should be furnished to the Auditor General within 60 days from the end of the year of accounts. Nevertheless, accounts pertaining to the year 2020 had been submitted on 26 April 2023, thus recoding 02 years and 02 months delay.

Not commented.

Action should be taken to submit accounts.