

Paddy Marketing Board- 2020

The audit on the operating activities of the Paddy Marketing Board for the year ended 31 December 2020 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 30 of the Paddy Marketing Board Act, No.14 of 1971. The Financial Statements for the year 2020 that should be furnished in terms of Section 13(6) of the Finance Act, had not been furnished, even by the date of this report. Only my observations relating to the activities of the Board of the year under review, which I consider should be reported to Parliament in terms of the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation of financial statements of the Board that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

Even though the Financial Statements and the Draft Annual Report should be furnished to the Auditor General within 60 days after the close of the Accounting Year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Financial Statements relating to the years 2020 and 2021 had not been furnished to Audit even by the date of this report.

2.2 Existence of Assets and Liabilities

Details on the Assets, Liabilities, Income and Expenditure as stated in the Financial Statements as at 31 December 2019, finally prepared by the Board, appear below.

| Assets/Liabilities | Value |
|---------------------------|----------------------|
| ----- | ----- |
| | Rs. |
| Non- current Assets | 1,569,049,227 |
| Current Assets | 6,501,271,386 |
| | ----- |
| Total Assets | <u>8,070,320,613</u> |
| | |
| Current Liabilities | 10,049,541,444 |
| Non- Current Liabilities | 12,200,708,514 |
| Total Equity | (14,179,929,345) |
| | ----- |
| Total Liabilities/Equity | <u>8,070,320,613</u> |

| | |
|-------------------|--------------------|
| Total Income | 396,551,485 |
| Total Expenditure | 1,281,334,002 |
| | ----- |
| Deficit | <u>884,782,517</u> |

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a) The Cabinet decision No. අමප/20/0513/204/042 of 05 March 2020 had been made for the management of the unsettled loan balances provided by State Banks to the Paddy Marketing Board from the year 2012 to the year 2019 for the purchasing of paddy under the Government Paddy Purchasing Programme. A total sum of Rs.3,673,875,056 as the loan amounting to Rs.2,846,712,122 that remains payable to the Peoples' Bank by 31 July 2020 and the interest relating thereto, amounting to Rs.827,162,934 had been converted to Term Loans of the Peoples' Bank and an over interest totalling Rs.1,835,716,468 comprising Rs.1,422,409,942 as an interest at a rate of 11 per cent per year on the said loan and Rs.413,306,526 as an interest on the interest of the loan amount had to be paid by the end of 8 years.
- (b) The loan that was obtained from the Bank of Ceylon from the year 2012 to the year 2019 had been a sum of Rs.8,572,952,043 and the accrued interest relating thereto had been a sum of Rs.1,357,265,772 and, that loan and the interest had been converted to a Term Loan, as a sum of Rs.9,930,300,000. In making the payment by converting those loans into Term Loans, it had been agreed to pay within 96 months including the concessional loan period and to pay a sum of Rs.170,030,931 per month as the loan installment with the interest. As such, the Government had to overpay a sum of Rs.5,444,631,204 on the Board not being able to repay the loans due to a sum of Rs.15,374,931,204 which had to be paid as the loan and the interest at the end of the 96 installments.

3.2 Operating Inefficiencies

(a) Purchasing of Paddy in the Maha Season 2019/2020

- (i) Even though it had been estimated to purchase 300,000 metric tonnes of paddy at a certified price of the Government, representing 10 per cent of the harvest of 3 million metric tonnes of paddy, the intended paddy production according to the forecasts of the Department of Agriculture, relating to the 2019/20 Maha Season in terms of the Circular No.2020/03 termed "Government Paddy Purchasing Programme 2019/20 Maha Season", issued on 22 January 2020 by the Ministry of Internal Trade, Food Security and Consumer Affairs, the amount of paddy purchased through the District Secretaries and the Regional Offices of the Paddy Marketing Board had been a total of 52,252 metric

tonnes, as 26,383 metric tonnes and 25,869 metric tonnes, respectively. It had been 17 per cent of the Estimated Amount.

- (ii) The amount provided for purchasing paddy to the District Secretaries and to the Regional Offices of the Paddy Marketing Board had been a total sum of Rs.4,044 million, as sums of Rs.1,900 million and Rs.2,144 million respectively, of the sum of Rs.4,780 million that had been provided as Bank Loans. As such, a sum of Rs.736 million of the obtained Bank Loan amounting to Rs.4,780 million had not been utilized in any manner whatsoever.
- (iii) Even though a sum of Rs.1,900 million had been provided to the District Secretaries of 16 Districts for the purchasing of Paddy of the Maha Season, a sum of Rs.597 million of that amount had been returned without being utilized for the purchasing of paddy. Any purchase whatsoever had not been carried out from the sum of Rs.90 million provided for the 04 Districts of Batticaloa, Matara, Kandy and Mannar and the full amount had been returned.
- (iv) The reasons such as the purchasing of wet paddy for a price higher than the Government Controlled Price by the private paddy buyers as well as the purchasing of paddy within the paddy field itself by the rice millers without making any consideration whatsoever on the standard, despite the purchasing of paddy being carried out, based on the Certified Price by the Paddy Marketing Board by considering the standard, had been affected towards not being able to purchase the intended amounts of paddy in the 2019/2020 Maha Season.
- (v) Even though the purchase of paddy from all the Districts should be wound up by the second week of April 2020 as per the plans of the Paddy Marketing Board, a sum of Rs.597,106,898, from funds that had been provided to the District Secretaries had not been utilized and it had been returned to the Paddy Marketing Board with a period of delay within the period from 15 April to 23 August 2020. As such, the interest payable for the loans obtained by the Paddy Marketing Board, only for the period of delay had been a sum of Rs.16,722,933.
- (vi) The storage capacity of the Paddy Marketing Board had been 304,540 metric tonnes and the amount of the stocks stored in the beginning of the Maha Season had been 2,596 metric tonnes. As such, even though it had the capability of purchasing the intended amount of 300,000 metric tonnes of paddy, it had been utilized 91 per cent less than the storage capacity on, only 25,896 metric tonnes being purchased.

(b) Purchasing of Paddy in the Yala Season- 2020

- (i) It had been estimated that the total paddy harvest is approximately 2.1 million metric tonnes, by the Department of Agriculture relating to the Yala Season of the year 2020, as per the Memorandum No.AG/80/2020 titled “Paddy Purchasing Programme in the Yala Season of the Year 2020”, presented by the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development and even though it had been estimated to purchase a stock of 200,000 metric tonnes of paddy in a manner that represents 9.53 per cent of the

total paddy harvest, it had been planned to purchase only 134,500 metric tonnes of paddy by the Paddy Marketing Board. Moreover, it had been purchased paddy totalling 9,890 metric tonnes, as 6,024 metric tonnes and 3,866 metric tonnes respectively, through the District Secretaries and the Regional Offices of the Paddy Marketing Board. It had been 7 per cent of the amount of paddy that had been planned to be purchased by the Paddy Marketing Board.

- (ii) The amount of money provided to District Secretaries and to Regional Offices of the Paddy Marketing Board totalled Rs.722 million, comprising Rs.376 million and Rs.346 million respectively for the purchasing of paddy in the Yala Season of the year 2020. Of that money, only a total sum of Rs.465 million comprising Rs.269 million and Rs.196 million had been spent respectively, for the purchasing of paddy. It had been 64 per cent of the provided money. No money whatsoever of the sum of Rs.45 million provided for the 03 Districts of Anuradhapura, Badulla and Kandy had been utilized for the purchasing of paddy, of the money provided above and, the total amount of money had been returned to the Paddy Marketing Board.