

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss and other 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 Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified 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 qualified 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 determine 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 Corporation'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 intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Corporation 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 Corporation.

## 1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation.

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation.
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the Preparation of Financial Statements

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

Reference to the relevant standard	Comments of the Management	Recommendation
(a) Corporation had not recognized the deferred tax value in the financial statements in accordance with Section 15 of Sri Lanka Accounting Standard 12.	Agree with the observation. Deferred tax adjustments will be included in the 2023 financial statements.	Deferred tax adjustments should be made as per Sri Lanka Accounting Standards.
(b) As per paragraph 51 of Sri Lanka Accounting Standards 16, although the Rs.133,557,771 of fixed assets were fully depreciated, they were being used due to non-annual review of residual value and useful life time for non-current assets and, the useful life time of those assets had not been reassessed and accounted. The estimated error according to that had not been corrected in accordance with Sri Lanka Accounting Standards 8.	Agree with the observation. The necessary actions will be taken to initiate revaluation of all tangible non-current assets of the corporation including fully depreciated or zero carrying value tangible non-current assets (Property, Plant and Equipment). Also, in relation to tangible non-current assets other than motor vehicles, a formal survey will be conducted and necessary actions will be taken to complete the revaluation activities.	The useful life time of the assets should be reassessed and accounted in accordance with Sri Lanka Accounting Standards.
(c) According to Section 79 of Sri Lanka Accounting Standards No.16, although the gross carrying value of Property, Plant and Equipment which were fully depreciated and currently in use should be disclosed in the financial statements, it had not been disclosed in the financial statements regarding the Rs.133,557,771 cost of fully depreciated Property, Plant and Equipment.	Agree with the observation. With the completion of the revaluation activities of the assets, the gross carrying values of the assets referred to in this audit observation will be disclosed in the forthcoming financial statements.	The carrying value of assets should be disclosed in the financial statements according to the Sri Lanka Accounting Standards.

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| (d) | Although the provisions for retirement gratuity should be invested according to the formal investment plan as per the Section 139 of Sri Lanka Accounting Standards 19, an investment had not been made corresponding to the balance of Rs.35,789,916 at the end of the year under review in the account of provisions for retirement gratuity. | Agree with the observation. a letter has been sent to the Department of Public Enterprises with the approval of the board of directors and the approval of the Minister in charge to invest Rs. 100,000 each monthly correspondingly to the balance of provision for retirement gratuity shown in the financial statements and accordingly, the necessary further action will be carried out as soon as the relevant approval is received. | Sri Lanka Accounting Standards should be followed. |
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### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
(a)	According to Section 135(b) of Sri Lanka Accounting Standards 19, an entity had not presented a comparison of the opening balance to the closing balance for the defined benefit plan. Although the corporation should show the items such as its current service cost, interest income or expense, payments made in relation to the year under review and actuarial benefits gain/loss separately, its total had been shown as expenses for the year in the note related to the defined benefit plan in the statement of financial position.	Agree with the observation. The information to be presented separately for the defined benefit plan will be disclosed in the financial statements in accordance with the provisions of the relevant accounting standard from the year 2023.	As per the Sri Lanka Accounting Standards, a comparison should be presented from the opening balance to the closing balance for the defined benefit plan.
(b)	Although the number of teak saplings planted in the year 2000 in the Eluwankulama Estate of the corporation in Puttalam district is about 3,350 trees that have grown to the condition of obtaining timber by the year 2022, the value of those trees has not been assessed and taken into financial statements.	The assessment of teak trees in Eluwankulama Estate has been completed by now, and the relevant assessment report has been forwarded to the State Timber Corporation to confirm the accuracy of the assessment. However, since the process of transferring the legal rights of the estate to the corporation has not yet been completed, it is not possible to include the assessed value of the teak trees in the corporation's books of account.	The value of trees should be assessed and taken into financial statements.

### 1.5.3 Going Concern of the Company

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
The visible loss in the financial statements of the corporation in last 05 years regardless of government grants in the period from 2018 to 2022 had ranged from Rs.134,800,425 to Rs.102,312,523. According to this, it was observed that the going concern of the corporation without government grants has become challenging due to reasons such as continuous operational losses, staff vacancies and decrease in production due to non-cultivation of existing cashew estates .	Close attention has been given to the actions to be taken to increase the profitability of the corporation by further increasing the sales and other incomes and properly managing the expenses, and accordingly the necessary further actions are taken.	Losses, staff vacancies and decreases in production due to non-cultivation should be taken care of and the Going Concern of the corporation should be ensured.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Cash Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Reccommendation</b>
(a) Although the debt collection period of the corporation is 60 days, the trade debtor balance exceeding 90 days is Rs.2,994,271. Formal actions had not been taken to recover the balance of Rs.1,499,410 to be received from a private company located in the Colombo area and included in the said trade debtor balance for more than two years.	Rs.1,296,771 was recovered by 30.09.2023 from the trade debtor balance of Rs.2,994,271 which exceeded the grace period and the remaining balance will be recovered promptly. Since it was unsuccessful the efforts taken for a long time to recover the outstanding balance of Rs.1,499,410 (Lisala Enterprises), it have been directed to take legal action.	Formal actions should be taken to recover the debt balance.
(b) The 10 years had been passed since cashew plants worth Rs.9,466,200 were given to the existed Ministry of Economic Development. It is observed that there is no possibility of recovery of the said debt due to the fact that the relevant ministry has been revoked at the present.	Even though it has been referred to the Public Enterprises Department of the Treasury for advice regarding the debtor balance of Rs. 9,466,200 to be received from the Ministry of Economic Development which was currently revoked and the balance of Rs.3,500,000 to be paid by the corporation to the Paddy Marketing Board, written instructions have been received from the Public Business	Necessary action should be taken immediately regarding the accounts receivable balances.

Department that there is no possibility for set off and to proceed further actions with the recommendations of the audit committee of the corporation regarding the above debtor balance.

- (c) Although the value of other debtors more than 01 year is Rs.18,857,611, the impairment loss allocated to other debtors is Rs.2,106,184. Although the same figure has been maintained since 2018 as impairment losses for other debtors every year, the figure has not been updated annually or written off or any other actions have been taken.
- Attention will also be paid to the material debtor balances for which provisions for impairment loss has not been made and the necessary amendments regarding the current provisions for impairment loss will be included in the accounts related to the financial statements of the year 2023.
- Provision for impairment losses should be updated annually.

## 1.6.2 Cash Payables

Audit Observation	Comments of the Management	Recommendation
(a) Rs.3,500,000 was taken through the intervention of the Ministry of Cooperative Development in 2005 from the Paddy Marketing Board on the basis of repayment for purchasing raw cashews and the related interest of Rs.927,500 had not been paid until the year under review.	Although the approval was sought from the Department of Public Enterprises to set off the loan amount obtained from the Paddy Marketing Board against the outstanding government loan amount, approval has not been received for that. The value of this outstanding loan will be discussed and a conclusion will be reached.	Actions should be taken to settle the accounts payable balances.
(b) According to the insurance maintained on behalf of the employees of the corporation, a sum of Rs.3,954,338 i.e. Rs.1,300,431 which was to be paid two years ago for the reimbursement of the medical bills of the employees and Rs.2,653,907 which was to be paid a year ago had been shown in the financial statements as an outstanding creditor balance without paying to the respective beneficiaries.	An amount of Rs.1,834,738 has been paid to the relevant staff members by 202311.30 and the amount remaining to be paid is Rs.2,119,600. Since these medical aid payments are made from the funds earned by the corporation, the relevant payments have been delayed due to the existing financial difficulties. The remaining amount will be paid after the financial condition of the corporation is good.	Actions should be taken to settle the accounts payable balances.

## 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>Comments of the Management</b>	<b>Reccommendation</b>
(a)	Inland Revenue Act No.24 of 2017	Income tax payment and income tax reports have not been sent since the year 2011. Nevertheless, the financial statements had shown a balance of withholding tax (WHT) receivable of Rs.779,483 in respect of those periods.	Agree with the observation. The preparation of the relevant income tax reports is being completed at the present and since the income tax reports of a significant number of years are also to be prepared it will take a considerable period of time. Accordingly, the related activities will be completed as soon as possible and the reports will be sent to the Inland Revenue Department.	Relevant income tax reports should be prepared and submitted.
(b)	Section 18 of the National Audit Act No.19 of 2018	Although the audit fees should be settled within thirty days from the date mentioned in the invoice, the audit fee of Rs.930,000 as of 23 June 2023 had not been settled.	The remaining amount to be paid will also be paid as soon as possible.	Arrears of audit fees should be settled.
(c)	Decisions of the Committee On Public Enterprises dated 24 July 2012	Although the Committee On Public Enterprises had informed to take over the legal rights of the lands it does not have legal rights to the Corporation, The proceedings related to transfer of legal rights of the land enjoyed by the Corporation before 24 July 2012 and after 24 July 2012 which is 11,363 acres given by the Divisional Secretariat Offices and the Land Reform Commission to the Corporation had not	At the time of receiving the decision of the Committee On Public Enterprises dated 24 July 2012, the amount of acres of land in the estates/seed gardens which have not been transferred to the corporation is only 2370 acres. The amount of land that did not belong to this corporation by the year 2012 but has been received by the corporation from various parties and has not yet been legally owned is 8993 acres. Necessary actions are being carried out to take over the ownership of the lands.	Actions should be taken to take over the ownership of lands that do not have legal rights as decided by the committees.

been completed until 31 December 2022.

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| (d) | <p>Paragraph 66 of the Manual issued for the Good Governance of Public Enterprises in the Public Enterprises Circular No.PED/01/20 dated 16 November 2021 of Secretary to the Treasury</p> | <p>Although the draft annual report and accounts should be submitted to the Line Ministry and the Public Enterprises Department of the treasury with copies to the Auditor General within 60 days of the end of the financial year, the accounts of the corporation for the year then ended 31 December of the year under review were submitted to the Auditor General on 12 September 2023.</p> | <p>Agree with the observation. Due to various practical reasons, the delays in submitting the financial statements of previous years have been avoided and the preparation of financial statements has been completed until the year 2022, and the financial statements will be prepared and submitted to the relevant government institutions on the due date from the year 2023.</p> | <p>Financial statements should be submitted as per the instructions of Circular.</p> |
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## 1.8 Cash Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>	
(a)	<p>The instalment amount of Rs.1,807,121 which was deducted from the salary of the officers as the contribution of the trade unions and welfare associations of the officers and employees had been retained in the corporation's account by the 31 December 2021 without crediting to the said associations.</p>	<p>An amount of Rs.1,681,598 has been paid to the respective associations out of the instalment amount of Rs.1,807,121. The situation mentioned here has arisen due to the financial difficulties of the corporation and nevertheless, necessary arrangements will be made to remit the salary deductions to the unions at the relevant time in the future.</p>	<p>The cash payable to the associations of officers and employees should not be used for the activities of the corporation.</p>
(b)	<p>The corporation had used Rs.9,000,000 by the 31 December 2022 to purchase raw cashews out of the amount of Rs.225,000,000 received from the State Ministry of Development of Minor crops including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel, related industries and export promotion for the main works of construction of elephant</p>	<p>Since there is an obligation to buy raw cashew crops from the cashew cultivation area maintained by the Civil Security Department in Kondachchi Estate according to the cabinet decision, this amount of 9,000,000 has been used from the provisions of relevant restoration project to purchase the raw cashew</p>	<p>Funds allocated to a project should be used efficiently and effectively.</p>



fence, purchase of tractors and water bowsers and construction of buildings under the reconstruction of Kondachchi Estate.

crops collected by the said department in the year 2022 as above. Nevertheless, the amount has been settled back to the restoration project by now.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result for the year under review was Rs.14,471,411 and the corresponding last year's loss was Rs.16,412,185. Accordingly, an increase of Rs.30,883,596 was observed in the financial result. Although the increase in recurring grants by Rs.12,700,000 and capital grants recognized as income by Rs.11,085,762 during the year under review and receiving the income of Rs.6,437,392 through the cultivation of side crops in the Kondachchi Estate in Mannar district had mainly caused, sales income of cashew product during the year had decreased by 3.1 percent compared to the previous year.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The accuracy of the final stock value of Rs.72,093,677 stated in the accounts could not be verified due to the fact that an accepted accurate method was not established in calculating the unit cost of raw cashews, cashew nuts and cashew plants.	The preliminary work of the cost calculations mentioned in here has been finished by now through the committee consisting of officers of the Corporation. Accordingly, the related cost calculation method will be completed as soon as possible and after obtaining the concurrence from the officials of the National Audit Office, the values of the closing stocks will be calculated by using the relevant method and included in the financial statements in preparation of the financial statements of the year 2023.	An accurate method of calculating production cost separately should be introduced.
(b) Very low attention had been paid from the year 2013 to the year 2022 regarding the fulfilment of the factors mentioned in paragraph (a),(c),(d),(f) and (h) of the first schedule of the gazette notice No.60/07 dated 25 May 1973 issued for the establishment of the Corporation, that means actions had not been taken to giving advice to	Disagreed with the observation. The relevant information has been requested through the corporation by the Ministry of in charge (currently the Ministry of Agriculture and Plantation Industry) in providing relevant information and advices and also, that information has been provided by the Corporation. In addition, in	The organization should work to fulfil the established objectives.

the Minister, processing cashew products, developing sales and exports, working together with external parties regarding promotion and distribution, investigations and research.

the urgent, special and other subject matters that arise, their opinion, relevant information and expert opinions were presented by the officers in charge in the meetings held by the Ministry in charge. In matters outside of its main objectives that should be interfered by the corporation, the relevant activities will be carried out according to the approval of the Secretary of the Ministry in charge to pay the attention of the honourable minister regarding that.

- (c) The land size of 13 estates owned/in charge by the Corporation was 11,363 acres and out of that 3,449 acres were cultivated with cashew nuts while the percentage of uncultivated land was 70 percent. The any effective action had not been taken by the Corporation to cultivate the waste land.

Although 50 years have passed since the establishment of the Corporation, 79 percent of the total land area of 11,363 acres has been acquired by this Corporation after the year 2012. Out of the total land, Kondachchi estate at Mannar and Mankarni Estate at Batticaloa have been given to the Civil Security Department for cashew cultivation and cashew has been successfully cultivated in 1,600 acres of land. Also, there is an amount of 552 acres of land which cannot be used for cashew cultivation or any other cultivation.

The corporation should take steps to cultivate the uncultivated waste lands.

- (d) By planting 70 transplanted cashew plants per acre and 40 seed cashew plant per acre on 3,449 acres of land where cashews were cultivated of the Corporation, the cashew productivity in the year 2022 was 88.24 metric tons and the yield at a low value of 25.38Kg of cashews per acre. By the end of the year under review, it has been stated that the number of fecund cashew trees in those plantations was 51,685 and accordingly, the average yield of one cashew tree existed at a low level which was 1.71Kg.
- Most of the estates of the corporation have very old cashew plantations and the number of existing cashew trees is much lower than the standard number of cashew trees. Also, the number of cashew trees was also decreased greatly due to reasons such as the wild elephant damages, beetle damages to trunk/body and root. The raw cashew crops were at a low level in the entire island due to unfavourable weather and climate condition in the year 2022 and the shelled cashew harvest collected by the estates of this Corporation in the year 2020 was at a value of approximately 5.043Kg.
- An unacceptable decline in cashew productivity has been reported and action should be taken to increase cashew yield. A proper internal control should be implemented regarding the controlling the cashew estates and graving the cashew harvest.
- (e) The number of coconut trees in the Kamandaluwa estate in the Puttalam and Ampara Hardi Estate owned by the corporation were 3,358 and 826 respectively and consisted 1,147 of immature, 2,391 of productive and 646 of arid trees. The coconut productivity was 90,304 nuts in the year 2022 and its sales income was Rs.4,427,439. Accordingly, the annual coconut productivity of a tree was 38 nuts and the sales income was reduced up to Rs.1,863 due to the poor maintenance of coconut trees and the poor level of the application of fertilizer.
- The crops was decreased significantly due to the non-application of chemical fertilizers required for coconut cultivation for the last 05 years according to the existed crisis situation in the country and the bad financial condition of the Corporation. So a significant growth in coconut harvest can be expected in the next year due to necessary arrangements are being made to purchase fertilizers for cultivation in the year under review.
- Necessary steps should be taken to increase coconut productivity.
- (f) The raw cashew warehouse at the Nedagamuwa cashew processing center has not been repaired for many years and good quality raw cashews were spoiled due to use of polysack type packaging without using the rope sacks or net sacks to allow ventilation for the raw cashew when store the raw cashew in the warehouses.
- The Nedagamuwa processing center is run in a very old building and modernization to suit the processing requirements is a difficult task. This problematic situation can be avoided by removing the old building and constructing a new one, nevertheless, the corporation has no sufficient funds for that. Also, the annual raw cashew harvest is sent to Nedagamuwa and
- Steps should be taken to minimize wastage.

Puttalam processing centers for processing. Since the rope sacks used to store that stocks are subject to decay very quickly, the polysack packaging is used for the raw cashews.

- (g) The area under cashew cultivation was approximately 3,449 acres by the end of the year under review. The net value of those trees has been stated as Rs.24,159,359 in the financial statements, nevertheless, doing a census of the cashew trees, numbering of the trees and preparation of the register of regarding the trees had not been done.
- The preliminary work regarding the census of these cashew trees has already been started and it is planned to complete the work before the harvest season of the next year. The preparation of the cashew tree register will also be completed based on that after completion of the relevant census activities.
- The attention should be paid to the assets management.

### 3.2 Underutilization of funds

Audit Observation	Comments of the Management	Recommendation
(a) The corporation had 06 current bank accounts and 05 savings bank accounts and out of that 02 current accounts and 03 savings accounts have not been operated for a long time and their total are Rs.23,343 and Rs.306,966 respectively. Actions had not been taken to close those 05 inactive accounts.	Already an action are being taken to inactive the remaining all bank accounts of the corporation except 02 current accounts of the Bank of Ceylon (current accounts with the numbers 1633704 and 1633705) and 01 savings account of the Bank of Ceylon (savings account with the number 1649789) after obtaining the approval of the Board of Directors of the corporation.	Inactive bank accounts should be closed.
(b) Although a total of Rs.225,000,000 had been given by Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel related Industries and Export Promotion in three occasions for the Mannar, Kondachchi Estate Restoration Project and it was proposed to be completed by 31 December 2021, Rs.78,761,352 had been spent and the balance of Rs.137,236,648 remained idle as at 31 December 2022.	Rs.89,428,585 has been spent even as at the 2023.10.31 on the related activities of the project out of the allocation of Rs.225,000,000 received for the re-establishment of Kondachchi Estate. Also, after 2023.10.31, The procurement activities related to clearing the forest and cutting the pits in the new cashew cultivation area of the estate, purchase of the agriculture equipment, field equipment and office equipment, purchase of electrical equipment and office	Funds should be used effectively and efficiently.

equipment for the circuit bungalow to be built in the estate are being done and accordingly, the amount expected to be spent in the next short period of time through the procurement activities which are in the final stage is Rs.23,787,649. The procurement activities related to other major expenses have also been started and accordingly, the activities required to complete the activities of this project on or before 2023.12.31 will be carried out as planned.

### 3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) 3 cars, 2 lorries, a tractor and 2 motorcycles owned by the corporation were parked in garages without being repaired even as at 30 November 2023.	The vehicles of the corporation have been entered in to garages of the corporation according to the vehicle repair method for emergency repairs and in some cases, the vehicles that are suddenly put into the garages remain in the garages for a considerable period of time until the procurement activities related to repairs are completed properly. However the necessary actions have been taken to complete the relevant repairs as soon as possible by properly following the vehicle repair method.	Repairs should be made and steps should be taken to utilize those assets.
(b) It had been observed during physical inspection of the Puttalam processing center that the machine purchased in the year 2021 for the automatic processing of cashews at a cost of Rs.7.092 million had been idle.	The value of Rs.7.092 million basically includes a cashew boiler, a cashew processing machine and 02 cashew dehydrating machines, out of that only the cashew processing machine and two cashew dehydrating machines were ordered by the corporation. The concerned supplier, Sahesh Industries, informed that the supply of cashew dehydrating machines could not be done due to the prevailing inflationary situation and the concerned supplier delivered only the cashew processing machine to the corporation. Due to the existed problematic situation regarding the operation of that processing machine, the usage was delayed. When the relevant supplier requested payment for that machine, an action has been taken to release the relevant payment by retaining the	Necessary repairs should be made and the machines should be put into use and necessary steps should be taken to recover the losses.

10 percent of the purchase price of the machine based on the recommendations of the committee appointed to check the performance of the relevant machine.

After that an estimate of Rs.04 million has been proposed to restore this machine for operational condition by Buddhi Industries which owns the patent for the production of cashew cutting machines. Accordingly, the part which is cashew cutting part of the machine that is currently identified as essential in the above processing machine has been expected to basically repair by corporation and during that, the legal actions will be taken against the main supplier as mentioned above.

- (c) The generator, boiler, oil producing machine from cashew shells which are existing at the Nedagamuwa processing center and the boiler which existing at the Puttalam processing center were idle and action had not been taken to use those after repairing or action had not been taken to dispose.
- Even though the generator and the boiler are very old, those machines are used for the work of the processing center by carrying out repairs from time to time. Some of these repairs have been delayed due to various practical reasons. Special attention will be paid in this regard in the future. Also, due to the lack of current market demand for cashew shell oil, the machine that produces oil from cashew shell remains unused. However, if the market factors change in the future, there is a possibility to use this machine again for the relevant production activities by carrying out services as required.
- Repairs should be made and the machines put into use.
- (d) The production productivity that could be obtained between 90 and 95 percent by subjecting raw cashews to a boil had dropped to 70 to 80 percent due to out of service of the Cashew Processing Boiler at the Nadagamuwa Cashew Processing Centre since 2015 and the cashew boiling process has stopped. As a result, the income that could have been obtained from the sale of cashews had been lost between 15 and 20 percent.
- In the middle of 2017, bids were invited for the repair of the boiler at the Nadagamuwa Processing Centre, only one bid was received. As the received bid was a very high, the relevant repair was not done according to the existing provisions of the corporation.
- The necessary actions should be taken to re-use the boiler.

- (e) An Automated Packing Machine capable of packing 60 packets per minute at a cost of Rs.8,100,000 had been purchased for the Grading and Packing Division of Nadagamuwa Cashew Processing Centre in 2021. The number of packets packed in the year 2022 was 62,265 and the maximum capacity of this machine has not been utilized.
- While purchasing this packing machine, attention has not been paid to the current production capacity of the processing centres. The attention has been paid in here to the requirement created in the future increase in production capacities through the mechanization of the processing centres. Although it was previously planned to purchase a relatively low-capacity packing machine by the corporation, the purchase of that machine was rejected as significant variations in the weight of the packages were observed during the inspection of the samples of the packages provided by the relevant machine. Those previous experiences have also been considered in making the decision to purchase this packaging machine with modern technology. The specifications mentioned here have been prepared in consultation with external parties and paying special attention to the quality of packaging, the accuracy of the packaging measurements and stability of packaging etc. A preliminary investigation is being conducted by the Internal Audit Division of the Ministry of in charge regarding the use of this machine, and accordingly relevant decisions regarding the use of this machine will be made based on the instructions of the Ministry of in charge.
- Procurement should be done efficiently and economically.

### 3.4 Defects in Contract Administration

Audit Observation	Comments of the Management	Recommendation
It had been planned to build 07 quarters to officers in charge by allocating an amount of Rs.15,653,000 by the Ministry of Development of Minor Crops Plantation including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Cloves, Betel related Industries and Export Promotion. These quarters have not been fully constructed for use as of 31 December 2022.	The price of construction materials and work rents increased in the market when compared to the approved estimate for these quarters, due to that the related construction works could not be completed properly. After receiving the instructions, approvals and provisions of the concerned ministries, the works are being carried out to complete the construction works of the buildings and there is the possibility of completing the construction works mentioned here as soon as the approval is received.	Construction should be done and put into use.