

Paddy Marketing Board 2012

1. Financial Statements

1.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.2 of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

1.2 Comments on Financial Statements

1.2.1 Going Concern of the Institution

The Board had sold the stocks of Paddy purchased regularly at lower prices less than the market price and the cost and as such had continued the methodology of obtaining loans from the Treasury and the State Banks to finance the purchase of Paddy from the ensuing season as well as for the settlement of losses arising from sales. Due to this situation the Board's reserve had been at a negative of Rs. 2 Billion and as such it could not be ruled out that an effect will not arise to the risk for the going concern of the Board without a financial support from the Government or any other financial support.

1.2.2 Sri Lanka Accounting Standards

Sri Lanka Accounting Standards – 9

Even though the cash flow statement should be prepared as to reflect cash out flows and cash inflows of the institution during the accounting period, the following weaknesses were observed in the cash flow statement presented along with the financial statements thus its balancing was questionable in audit.

- (i) Even though the depreciation for the year under review amounted to Rs.5,255,270, that was shown in the cash flow statement as Rs.5,379,590.

- (ii) Recurrent grant in the statement of comprehensive income amounting to Rs.35,350,000 had been brought to account under other income and again it had been included in the cash flow statement as cash inflows under financial activities.
- (iii) Even though the purchases of Property, Plant and Equipment in the year under review amounted to Rs. 260,687,228 it was shown as cash inflows amounting to Rs.1,795,356 under Investment Activities in the cash flow statement.

1.2.3 Accounting Deficiencies

Provisions for audit fees amounting to Rs.1,647,368 had not been made from the year 1998 up to the year under review.

1.2.4 Lack of Evidence for Audit

The following observations are made.

- (a) Fixed Assets aggregating Rs.272,646,416 and Paddy value at Rs.3,862,937,224, Soya Beans, Rice and stock in transit and receivables from millers amounting to Rs.36,896,844 could not be satisfactorily vouched or verified in audit due to non-availability of Fixed Assets Register, Title Deeds and Boards of Survey Reports, stock registers, stock verification reports and confirmations and schedules for stock in transit and balances of debtors for audit.
- (b) No evidence whatsoever had been furnished to audit in respect of adjustments made amounting to Rs.1,811,390,434 in the statement of changes in equity for the year under review.
- (c) The relevant approval and the details to write off the credit balance of suspense account amounting to Rs.180,422,896 had not been furnished to audit even by 31 July 2015.

1.3 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules and Regulations etc	Non-compliance
(a) Section 13(5)(d) of the Finance Act No 38 of 1971.	Even though an internal audit programme should be prepared and implemented in concurrence with the Auditor General, action had not been taken accordingly.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 135 to 139	The Board had not carried out assignment of duties and the delegation of financial authorities.
(ii) Financial Regulation 188(2)	Action in terms of Financial Regulations had not been taken on 05 cheques amounting to Rs.12,839,744 brought forward from preceding years which deposited in the banks but not realized even by the end of the year 2012.
(iii) Financial Regulation 387	Even though the paying officer should ensure that the bank balance is adequate in the official bank account before cheques are issued, the cheques had been drawn from 05 bank accounts without adequate balance and as such an overdraft totalling Rs.61,834,763 was arisen as at 31 December 2012. The Treasury approval had also not been obtained thereon.
(iv) Financial Regulation 756	Fixed Assets amounting to Rs.272,646,416 and stocks amounting to Rs.3,862,937,224 shown in the financial statements for the year under review had not been surveyed over a period exceeding 07 years.

- (c) Decision of the Cabinet of Ministers No 07/199/315/31 dated 25 July 2007
- According to the Decision of the Cabinet of Ministers, the Sri Lanka Agricultural Products Marketing Authority should be liquidated and all the assets and liabilities belonging to the authority should have been taken over by the Board. Nevertheless, the Board had taken over only the assets such as Fixed Deposits, Savings Deposits, Cash in Hand and Staff Advances amounting to Rs.184,658,970. Action had not been taken even up to 31 December of the year under review for the take over of the other assets and liabilities.
- (d) Decision of the Cabinet of Ministers No අම/10/2762/447/013 dated 16 December 2010
- Even though action should be taken for the settlement of advances amounting to Rs.2,000 million granted by the Treasury, from the money collected from the sale of rice according to the decision of the Cabinet of Ministers, action had not been taken for the settlement of those advances from the sum of Rs.708,232,048 received from the sale of rice during the year.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operation of the Board for the year under review had resulted in an operating loss of Rs.1,996,230,034 as against the operating profit of Rs.263,796,088 thus indicating a drastic deterioration of Rs.2,260,026,122 in the financial results. The increase of cost of sale of paddy and the increase of financial expenditure including loans and overdraft interest by Rs.1,605,414,063 and Rs.238,009,870 respectively as compared with the preceding year had mainly attributed to this deterioration.

3. Operating Review

3.1 Performance

In terms of Sections 3 and 10 of Paddy Marketing Board Act No: 14 of 1971, the Board shall run a business for the milling of paddy and rice, polishing and processing and the registration of private rice mills. Nevertheless, disregarding this, the paddy valued at Rs.1,510,193,268 had been issued during the year to certain millers selected improperly on the basis of turning paddy into rice and return.

3.2 Management Inefficiencies

The following observations are made.

- (a) As mentioned in the Cabinet Memorandum No අම/13/0198/540/004, the loss sustained by the Board from overall sales process of the paddy and rice up to 31 December 2012 amounted to Rs.4,121.47 million. The Minister of the line Ministry had forwarded a Cabinet Memorandum on 12 February 2013 requesting either a grant from the Treasury or to increase the limit of the pledge loan equal to that amount for settlement of the loss. According to the comments of the Central Bank it was informed the Board to furnish a plan that should be implemented to ensure at least a financial loss may not occur in the future. However such a plan had not been prepared by the Board even by 31 July 2015.
- (b) The stores had been constructed by incurring a sum of Rs.7,392,035 in the lands not legally owned by the Board and action had not been taken to transfer the ownership of the lands properly up to date.

3.3 Deficiencies in Contract Administration

The following observations are made.

- (a) Contracts had been awarded to repair 03 paddy stores, 03 official quarters, a rice processing centre and an office building in the year under review without obtaining a Performance Bond in terms of Procurement Guidelines 2006 and advances amounting to Rs.17,553,456 had been paid without obtaining an Advance Bond.
- (b) Even though the provisions for contingencies shown in the contract estimate should not exceed 10 per cent of the estimated contract amount, in terms of the Section 8.13.3 of the

Procurement Guidelines, a sum of Rs.8,898,550 had been paid on the above contracts exceeding such limit.

- (c) A retired engineer more than 60 years of age had been appointed as a consultant to supervise the contracts without a proper approval. Despite there was no certification made available that the estimates had been examined by him or they had been accurate, a sum of Rs.280,500 had been paid as consultancy fees from the year 2011 up to 02 August 2013, the date of audit. However at the physical examination carried out during the period from 26 to 30 August 2013, several defects were observed on constructions.

3.4 Apparent Irregularities

The following observations are made.

- (a) The project for the Establishment of Paddy/ Rice Centre in the Nikawaratiya area valued at Rs.500 million had been referred to the Department of External Resources on 17 August 2012 to obtain foreign funds with the approval of the Department of National Planning. Advance amounting to Rs.5 million out of the estimated expenditure of Rs.78.5 million (with VAT) for civil works of this project had been paid to a State Corporation on 2 February 2012 without a Performance Bond, deviating from Procurement Procedure. These constructions had not been carried out even by 31 July 2015.
- (b) According to the payment details of bank, the value of paddy purchased in the year 2010 amounted to Rs.5,411.2 million, whereas according to the Goods Received Notes, stocks valued at Rs.5,361.6 million only had been received by the stores. Accordingly, a shortage of paddy stock amounting to Rs.49.6 million was revealed subsequently, the Chairman of the Board had directed 05 zonal Managers to investigate such payments and the balances of stocks and to take action to correct the balance of stocks by the letter No PMB/F1/01/2013 dated 28 January 2013. Further, it was informed that action will be taken to recover the loss of the stock shortage from the relevant persons, as all purchasing and making payments were done by the zonal staff and if it is not so, it has to be recovered from the relevant Zonal Managers. Nevertheless, action had not been taken either to settle such balances or to recover from the Zonal Managers even by 31 July 2015.

3.5 Uneconomic Transactions

The return had not been received by the Board for the investments of shares amounting to Rs.127,000 in a News Paper Company from the year 2011.

3.6 Under-utilization of Funds

The Savings Account opened in the year 2008 for depositing the money collected from the sale of paddy by the Sri Lanka Agricultural Products Marketing Authority had been transferred to the Board on 26 April 2010 and the balance as at the end of the year under review amounted to Rs.3,853,550. The attention had not been paid to invest that money in an fruitful investment by the Board.

3.7 Identified Losses

The following observations are made.

- (a) The Board had paid sums of Rs.25,091,760 and Rs.520,181,969 as interest on Bank overdraft and interest on Bank loans respectively during the year under review due to the non-settlement of Bank overdrafts and the Bank loan balances.
- (b) At the verification of stocks of paddy carried out in 05 selected zones as at 31 October 2013 according to the Decision No. අම/12/0815/504/041-I dated 12 July 2012 of the Cabinet of Ministers, a shortage of 16,853,527 kilograms of paddy was observed and the total value of it amounted to Rs.506.09 million.
- (c) Due to non-issuing of paddy stocks at proper time in 05 zones subjected to physical verification, the obsolete stocks were observed and paddy amounting to 586,107 kilograms valued at Rs.17.44 million was perished due to non-storing the paddy in the ground shelves properly (not made available sufficient shelves) and due to spring water flowing inside the stores and seeping the rain water from the roof to the stores and the most of the stores inundated due to rain water.
- (d) According to a decision given by the Secretary of the Ministry of Finance and Planning to export 100,000 metric tonne of rice at the rate of 247 US\$ Dollars per metric tonne of rice, 22,950 metric tonne of rice had been exported to United Arab Emirates during the

year under review, and as such a net loss of Rs.711.50 million sustained by the Board. Despite a state institution made a request to purchase broken rice which made as a by-product when processing rice for exports at the rate of Rs.35 per kilogram but without considering that, the rice had been exported at Rs.17.86 per kilogram without proper approval. As such a loss of Rs.23.29 million was sustained by the Board.

However according to the observations of the Minister of Finance and Planning on the Cabinet Memorandum dated 2 May 2013 named as “presentation of Profit and Loss Account of the Paddy Marketing Board as at 31 December 2012 to the Cabinet of Ministers and the proposals for the Cost Management,” it was proposed to carry out future actions according to the provisions of the Financial Regulations and the Establishments Code after being revealed the reasons for the loss by proper investigations. But no action whatsoever had been taken even by 31 July 2014.

- (e) Even though the cost incurred up to the saleable condition of paddy per kilogram of Samba and Nadu had been Rs.35.90 and Rs.33.90 respectively, without proper approval, the Board had sold such paddy to a state institution from the year 2011 at Rs.31.50 and Rs.25.50 per Kg respectively. As such the Board had incurred a loss of Rs.334.04 million.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

In terms of the paragraph 6.5.1 of the Department of Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements for a financial year should be furnished to audit within 60 days after the end of the financial year, the financial statements for the year 2012 had been presented on 25 October 2013 with a delay of 239 days. But those financial statements had been returned to the Board on 18 August 2014 as they were inaccurate, and the revised financial statements had been presented to audit on 13 May 2015.

4.2 Internal Audit

According the directives made by the Committee on Public Enterprises at the meeting held on 05 December 2012, the audit of the Board should be carried out by the Internal Audit Division of the line Ministry until an internal auditor is appointed. But action had not been taken accordingly and none of the internal audit reports had been furnished to audit.

4.3 Budgetary Control

A budget, showing the estimated cash flow statement had not been prepared in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

5. Systems and Controls

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

- (a) Accounting
- (b) Fixed Assets Control
- (c) Internal Audit
- (d) Budgetary Control
- (e) Stock Control
- (f) Revenue Control