

## **Paddy Marketing Board – 2015**

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The audit of financial statements of the Paddy Marketing Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income , statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 30 of the Paddy Marketing Board Act, No. 14 of 1971 . My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was sent to the Chairman of the Board on 03 July 2018 .

### **1.2 Management’s Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000- 1810) .

### **1.4 Basis for Disclaimer of Opinion**

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As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity, and cash flow statement.

## **2. Financial Statements**

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### **2.1 Disclaimer of Opinion**

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Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Going Concern of the Board**

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As the stocks of paddy purchased by the Board had been sold at prices less than the market price and the cost, it had resulted to borrow loans annually from the Treasury and the state banks in order to fund for the purchase of paddy in the next season, and settle the losses occurred at sales. A sum of Rs. 40,935.96 million had been obtained from 03 state banks for purchasing paddy and operating expenses from the year 2009 to the year 2015 and a balance of loan amounting to Rs. 17,965.3 million and an interest thereon amounting to Rs. 623.9 million further remained payable by 31 December 2017 . As such, it could not be ruled out that there had been no effect on the existed risk affecting the going concern of the Board.

### **2.2.2 Disclosure of Transactions with the Connected Parties**

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Even though the payments totalling Rs. 57,409,183 had been made in the year under review to the “ C.W.E. Construction and Engineering (Private ) Limited” by awarding the construction activities of the Board for which the former Chairman of the Paddy Marketing Board had served as a founder member of the Board of Directors , those transactions had not been disclosed in the financial statements.

### **2.2.3 Sri Lanka Accounting Standards**

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#### **Sri Lanka Accounting Standard 7**

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The value of the sales amounting Rs. 1,800,000 with regard to the buildings sold in the year under review had not been shown under the Investment Activities of the Cash Flow Statement in accordance with the Section 16 of the Standard .

### **2.2.4 Accounting Deficiencies**

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The following observations are made.

- (a) A building belonging to the Board had been sold in the year under review for a sum of Rs. 1,800,000 and even though the profit or loss of the sold building should be adjusted to the comprehensive income statement removing the cost of that and the accumulated depreciation from accounts, only the sales value amounting to Rs. 1,800,000 had been shown under the other income of the comprehensive income statement.
- (b) The prior year adjustments amounting to Rs. 3,770,089 shown in the statement of changes in equity had been adjusted to the operating profit in the cash flow statement.

- (c) Without the confirmation of the paddy stock in hand by conducting the physical verification as at 31 December in the year under review, the cost of Rs. 16,450,997,581 had been shown in the statement of financial position as balance stock in hand .

## 2. 2.5 Unexplained Differences

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 The balance of state bank loan shown under non- current liabilities in the financial statements as at the end of the year under review was Rs. 5,492,938,778 . But according to the confirmation letter it was Rs. 5,425,234,112 thus a difference of Rs. 67,704,666 was observed .

## 2. 2.6 Lack of Evidence for Audit

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 As the evidence shown against the following Items of Accounts had not been made available, those could not be satisfactorily vouched or accepted in audit.

Item of Account -----	Value -----	Evidence not Made Available -----
	<b>Rs.</b>	
(a) Unidentified Purchase of Paddy	65,235,117	} Detailed Information, Confirmations
(b) Purchase Control Account	49,743,530	
(c) Sale of Rice Millers on Credit	45,249,804	
(d) Driage Cost	493,529,927	Approval on determining the applicable ratio
(e) Capital Contribution	631,484,518	Confirmation documents
(f) Expenditure on Polysack Bags	123,185,563	Signed Agreement between the Suppliers and the Board
(g) Other Allowances	28,336,705	Detailed Schedule
(h) Equipment, Building Materials and Employee Insurance, Accommodation for Security Officers, Water and Electricity		
(i) Rambewa Paddy Stores	550,000	} Confirmation documents
(ii) Thabbowa Paddy Stores	230,000	

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Within the debtor balance amounted to Rs. 2,004,008,842 as at 31 December 2015 the balances of a sum of Rs. 10,591,838 relating to a period of over 05 years, a sum of Rs. 501,805,774 relating to a period between 3 to 5 years, a sum of Rs. 1,470,801,401 relating to a period between 1 to 3 years and a sum of Rs. 20,809,829 relating to a period of less than 1 year were included and actions had not been taken even up to 20 March 2018 to recover those balances.
- (b) Within the creditor balance amounted to Rs. 8,828,409,980 as at 31 December 2015 the balances of a sum of Rs. 1,104,545,456 relating to a period of over 04 years, a sum of Rs. 600,000,000 relating to a period between 3 to 4 years, a sum of Rs. 597,309,986 relating to a period between 1 to 3 years and a sum of Rs. 6,526,554,538 relating to a period of less than 1 year were included and actions had not been taken even up to 20 March 2018 to settle those balances.

### 2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules, and Regulations, etc.</b>	<b>Non-compliance</b>
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(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 188 (2)	Actions had not been taken in terms of Financial Regulation on unrealized deposits valued at Rs. 9,865,603 that had continued to exist since the year 2009 .
(b) Public Administration Circular No. 01/ 2002 of 25 February 2002	The name of the institution with the Government Emblem had not been printed on the vehicles belonging to the Board.

## **2.5 Transactions not supported by an Adequate Authority**

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The value of the soya bean stock amounting Rs. 3,302,853 and the value of the rice stock amounting to Rs. 84,972 shown under the stock in hand in the financial statements from the year 2012 had been removed from the accounts in the year under review without proper approval.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operating loss of the Board for the year under review amounted to Rs. 1,773,170,546 as compared with the corresponding loss of Rs. 1,126,931,765 for the preceding year, thus indicating an increase of Rs. 646,238,781 in the loss for the year under review. The decrease in the income by Rs. 857,328,765 as compared with the preceding year had mainly attributed to the above increase in the loss.

In analyzing of the financial results for the year under review and four preceding years revealed that the deterioration in financial result for the year 2012 by 857 per cent as compared with that for the year 2011. The financial result for the year 2013 had improved by 48 per cent as compared with the year 2012, whereas the financial result had deteriorated by 9 per cent in the year 2014 as compared with the year 2013 and by 57 per cent in the year 2015 as compared with the year 2014 . However, when the employee remuneration and depreciation on non- current assets had been re-adjusted to the financial result, the minus contribution of the Board in the year 2014 amounting to Rs. 1,078,742,573 had deteriorated to a minus contribution amounted to Rs. 1,717,543,386 or by 59 per cent by the year 2015 .

## **4. Operating Review**

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### **4.1 Management Activities**

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The following observations are made.

- (a) As a result of sufficient stores were not available to store the paddy stock purchased during the year 2015 , fifteen Cocoon Stores ( temporary stores ) had been purchased for Rs. 39,330,000 from the State Trading (General ) Corporation. Nevertheless, because of non- identification of the number of the stores required accurately to each Zones, 04 stores handed over to Anuradhapura and Trincomalee Zones valued at Rs. 10,488,000 remained in idle.

- (b) Even though the State Trading (General) Corporation had informed that a Cocoon Store could be used from 10 years to 15 years period , out of the 06 stores issued to Ampara Zone, two stores which could not be able to use without renovation had remained.
- (c) Even though the advances should be settled within 07 days in order to the date of advances obtained in terms of the Internal Circular No. PMB/ F1/ 14/ 2015 of 22 April 2015 issued by the Board , out of the advances obtained from the year 2014 to 20 September 2017 amounted to Rs. 4,601,739 a sum of Rs. 745,444 had not been settled even by the 31 May 2018. Similarly, despite the advances obtained as such had not been settled, advances had been paid again to the same officers.
- (d) The balance of bank overdraft obtained from a state bank as at 31 December 2015 was Rs. 178,840,073 and the interest thereon had been Rs. 14,769,460 .

## 4.2 Operational Activities

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The goods in transit amounted to Rs. 54,385,222 is being brought forward from the year 2012 under the paddy stock in hand in the statement of financial position and actions had not been taken to settle that value even by the year under review.

## 4.3 Uneconomic Transactions

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The following observations are made.

- (a) As a result of ordering to purchase polysack bags by the Board at the point of purchasing the paddy harvest from the farmers, the supplier who had bid the lowest price had been impossible to supply the total number of bags. Accordingly, because of purchasing remaining balance from other suppliers, an excess payment had occurred totalling Rs. 1,688,710 to the Board as a sum of Rs. 1,288,000 for 700,000 bags by Rs. 1.84 per each bag and a sum of Rs. 400,710 for 1,083,000 bags by .37 cents per each bag .
- (b) As the Polysack bags were not received during the expected period, the instructions had been given to the farmers to pack the paddy in the bags belonging to them and extra payments had been made Rs. 30 per each for that purpose. Even though a sum of Rs. 5,455,710 had been paid for 181,857 bags belonging to the farmers in Anuradhapura Zone , the Internal Auditor of the Board had reported that the farmers had supplied old bags free from required standard and therefore the bags were quickly decayed and the paddy consisted in them had spread in the stores .

#### **4.4 Contract Procedure**

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Renovation activities in 04 stores had been handed over to the Co- operative Wholesale Establishment without following Government Procurement Procedures based on a letter issued by the Minister of Co- operative and Internal Trade on 06 September 2010 requesting that the renovations of buildings and new constructions belonging to the Ministry of Co- operative and Internal Trade and all the other institutions thereunder be assigned to the construction division affiliated to the Co- operative Wholesale Establishment. Nevertheless, a construction division affiliated to the Co-operative Wholesale Establishment had not been established and a sum of Rs. 57,409,183 had been paid to a private company as per the instructions of the Chairman of the Corporation for these contracts.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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Even though the financial statements should be furnished for audit within a period of 60 days since the lapse of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/ 12, dated 02 June 2003, the financial statements for the year 2015 had been furnished on 06 February 2018.

#### **5.2 Tabling of Annual Reports**

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Even though the Annual Performance Reports should be tabled in the Parliament within 150 days since the lapse of the financial year as per the letter of Director General of Public Finance No. PF/ R /2 /2 /3 /5 (4) of 10 March 2010 the Annual Performance Reports related to the year 2014 had not been tabled in the Parliament.

### **6. Systems and Controls**

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

**Area of Systems and Controls**

**Observation**

- | <b>Area of Systems and Controls</b><br>----- | <b>Observation</b><br>-----   |
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| <b>(a)</b> Vehicle Control                   | <b>(i)</b> Failure to maintain the running charts properly and make changes in notes .<br><b>(ii)</b> Failure to maintain a vehicle List<br><b>(iii)</b> Requests of vehicles and approvals thereon not done properly |
| <b>(b)</b> Control on Purchases              | <b>(i)</b> purchase not done in due time period<br><b>(ii)</b> Failure to maintain Stock Registers<br><b>(iii)</b> Not examined the standard of the polysack bags purchase by the Divisional Offices                  |
| <b>(c)</b> Contract Administration           | Actions taken in contrary to the Procurement Procedures   |
| <b>(d)</b> Stores Administration             | <b>(i)</b> Failure to store paddy following proper standards<br><br><b>(ii)</b> Stores Records/ Registers not maintained in an updated manner   |