

Paddy Marketing Board – 2016

The audit of financial statements of the Paddy Marketing Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 furnished to the Chairman of the Board on 24 August, 2018.

1.2 Management’s Responsibility for the Financial Statements

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

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

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

2.1 Disclaimer of Opinion

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 audit opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Board

The net assets were negative figure of Rs.12,060,577,822 for the end of the year under review and it had been increased by 96 per cent relating to the previous year. Further, the stocks of paddy frequently purchased by the Board had been marketed at a price less than the market price and the cost, action had been taken to obtained loans annually from the Treasury and the state banks in order to provide funds to purchase of paddy in the next season and settle the losses sustained from sale. A sum of Rs.17,965.3 million together with an interest thereon amounting to Rs.623.9 remained payable up to 31 December 2017 in respect of the loans and advances obtained from 03 state banks for purchase of paddy and for operating expenses during the year 2009 to year 2014. As such, the situation can be existed that activities of the Board cannot be continue without government or others financial assistances were observed in audit.

2.2.2 Sri Lanka Accounting Standards

The fully depreciated lorry cost amounting to Rs.3,322,135 as at the year 2015 had further being used due to annual review of useful life of the non-current assets were not done according to paragraph 51 of the Sri Lanka Accounting Standards No.16. An action had not been taken to rectify the estimate error on it according to the Sri Lank Accounting Standard No.08. However, the net book value of that lorry had been shown as Rs.443,735 in the financial statements of the previous year and the year under review.

2.2.3 Accounting Deficiencies

Stores renovation amounting to Rs.1,310,073 were completed in 2016 had been included in work-in progress account in the financial statements of the year 2016. Therefore, the balances in work-in progress account in the statement of financial position and land and building account as at 31 December 2016 had been overstated and understated respectively.

2.2.4 Lack of Evidence for Audit

The following items of accounts could not be satisfactorily vouched or accepted in audit due to the non-submission of evidence indicated against each item.

Item of Accounts -----	Value ----- Rs.	Evidence not made available -----
(a) Trade Debtors -----		
(i) Unidentified Purchase of Paddy	65,235,117	} Detailed information, balance confirmations
(ii) Purchase Control Account	49,743,530	
(iii) Sale of Rice Millers on Credit	45,049,804	
(iv) Co-operative Wholesale Establishment	462,689,308	
(v) Lanka Sathosa	77,526,708	
(b) Driage cost	290,772,157	Approval for decide suitable ratio
(c) Balance Payable to Treasury	7,067,901,995	Balance confirmations

2.3 Accounts Receivable and Payable -----

The following observations are made.

- (a) The debtors balance of Rs.2,013,370,698 as at 31 December 2016 included the balances of Rs.60,335,368 over 5 years, Rs.1,221,014,477 relating to 3-5 years, Rs.710,471,802 relating to 1-3 years and Rs.21,549,051 relating less than 01 year. The unidentified balance of Rs.65,235,117 between 2-3 years relating to purchase of paddy was in this balance. Action had not been taken to recover these balances up to 20 March 2018.
- (b) The creditors balance of Rs.7,686,883,820 as at 31 December 2016 included the balances of Rs.283,347,458 over 4 years, Rs.354,858,937 relating to 3-4 years, Rs.6,803,585,024 relating to 1-3 years and Rs.245,092,402 less than 1 year. A sum of Rs.7,067,901,996 payable to the Treasury was in this balance and action had not been taken up to 20 July 2018 to settle those balances.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions -----

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc. -----	Non-compliances -----
Finance Regulation of the Democratic Socialist Republic of Sri Lanka -----	
(a) Financial Regulation 188(2)	Action had not been taken in terms of Financial Regulation on unrealized deposits valued at Rs.9,865,253 that was existed since the year 2009.

(b) Financial Regulation 756

A physical verification had not been done relating to paddy stocks of Rs.9,692,405,242 in book value at the end of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board in the year under review had resulted in a deficit of Rs.5,894,325,856 as compared with the corresponding deficit of Rs.1,771,072,410 for the preceding year, thus indicating an deterioration of Rs.4,123,253,446 in the financial result in the year under review compared with the previous year. Above deterioration had been mainly resulted due to increase in cost of sales, administrative expenses and finance cost by Rs.12,183,280,871, Rs.24,446,534 and Rs.371,968,211 respectively despite the increase in revenue by Rs.8,464,174,689 during the year under review compared with the previous year.

Analyzing the financial results of four preceding years and the year under review, it was observed that the financial result in the year 2013 had been deteriorated by 48 per cent relative to the year 2012. The financial result had been increased by 09 per cent in year 2014 relative to the year 2013 and 57 per cent in year 2015 relative to the year 2014. The financial result had been deteriorated by 239 per cent in the year 2016 relative to the year 2015. However, when the employee remuneration and depreciation on non-current assets had been adjusted again to the financial result, the minus contribution of the Board in the year 2015 amounting to Rs.1,717,543,386 had increased by 239 per cent in the year 2016 up to a minus contribution of Rs.5,824,719,237.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) An amount of 12,000 ground racks amounting to Rs.80,826,550 had been purchased for pack the paddy and shape were changed in ground racks, nails were slipped in the wooden parts owing to not use of seasoned woods due to proper technical specifications were not prepared at the time of procure the ground racks were observed from internal audit reports.
- (b) In terms of Internal Circular No. pmb/fl/14/2015 dated 22 April 2015 issued by the Board, it had been informed that an advances should be settled within 07 days from the date of it obtained, an advances obtained for the period of 2015 to 10 July 2018 valued at Rs.1,591,360 had not been settled until 10 June 2018.

- (c) The bank overdraft balance have to be settled to the Bank of Ceylon as at 31 December 2016 was Rs.69,110,454 and interest thereon was Rs.6,759,122.
- (d) An action had not been taken to account the assets those can be used further after revalue or dispose those can't be used regarding assets cost at Rs.7,329,412 had shown net realizable value as zero under property plant and equipment in financial statements.

4.2 Operating Activities

The stocks valued at Rs.54,385,222 were not existed physically in the Board had been shown as stocks in transit from the year 2012 in the financial statements.

4.3 Identified Losses

The following observations are made.

- (a) The Board had incurred a loss of Rs.5.95 million from sale of 595 metric tons of Nadu rice at a rate of Rs.42 per 1 kg for a private company which were purchased at a rate of Rs.45 per 1 kg at Maha season in 2014/15 according to Cabinet approval No. CP/16/1354/732/024 dated 27 July 2016 relating to "Disposal of paddy which were purchased before Maha Season".
- (b) The Cabinet approval had been received on 02 March 2016 to sale of paddy at a rate of Rs.24 per 1 kg owned by the Board to produce animal foods and rice flour to clear the paddy stores during harvesting season owing to rice stocks being overflowed to the open market during near future and as informed to take actions to sell the paddy stocks which were not suitable for consumption of human being according to letter No. MRSA/5/2/1/1 dated 05 March 2016 of the Additional Secretary (Development and Planning) of the Ministry of the Rural Economic Affairs. However, a loss of Rs.2,487.7 million and a loss of Rs.78.57 million had been incurred respectively from sale of rice to 09 private companies for animal foods and to 02 companies to produce of rice flour respectively at a rate of Rs.24 per 1 kg of 2,800,935 kilos of Nadu rice and 88,616,309 kilos of paddy which were in good condition by purchased at a rate of Rs.45 per kilo.
- (c) The newspaper advertisements had been published for sale of paddy stocks purchased in Maha season according to Cabinet decision No.15/0744/608/013 dated 17 June 2015 and the prices received from that had been remained lower than prices prevailing in the market. Hence, 3,623,761 kilos of Keeri Samba at a rate of Rs.46.50 per kilo and 8,797,825 kilos of Sabba at a rate of Rs.46 per kilo had been issued to a buyer who was submitted highest price by bids were called by fax again from 11 buyers relevant to who quoted for newspaper advertisement according to instructions of the Secretary to the Ministry of Food Security letter No. CLT/5/6/1/1/Maha/2014/15 dated 02 September 2015. However, a loss of Rs.47,874,464 had been incurred to the Board from sale of paddy owing to that paddy were purchased at a rate of Rs.50 per kilo by the Board.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be furnished for audit within 60 days since the lapse of the financial. However, financial statements for the year 2016 had been furnished on 26 April 2018.

5.2 Tabling of Annual Reports

Whereas the approval of the Cabinet had been received on 05 June 2018 for Annual Report of year 2013, it had not been tabled in Parliament even by 15 August 2018. The Annual Report of the year 2014 was being prepared by the Board.

6. 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.

Area of Systems and Controls	Observations
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(a) Control of Vehicles	Failure to maintain the running charts in proper manner and change the running charts, non-maintenance of vehicle register, failure to conduct formal procedures when apply and approval of vehicles on deity purposes, failure to enter fuel amounts in the running charts.
(b) Stores Administration	Failure to store paddy following proper standards, non-maintenance of stores records/registers up to date.