

Paddy Marketing Board – 2017

The audit of operations of the Paddy Marketing Board for the year ended 31 December 2017 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 Paddy Marketing Board Act, No.14 of 1971. The financial statements for the year 2017 to be presented in terms of Section 13(6) of the Finance Act had not been presented even by the date of this report. My observations on the operations of the Board which I consider should be presented by me to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

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.

2. Financial Statements

2.1 Presentation of Financial Statements

Even though the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year of financial statements in accordance with Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, financial statements for the year 2017 had not been furnished even by the date of this report.

2.2 Existence of Assets and Liabilities

Details on the assets, liabilities, income and expenditure stated in the last prepared and audited financial statements as at 31 December 2016 by the Board are as follows.

	Value

	Rs.
Assets	

Non-Current Assets	1,253,094,741
Current Assets	12,155,177,280

Total Assets	13,408,272,021
	=====
Liabilities	

Current Liabilities	10,196,560,953
Non-Current Liabilities	15,272,288,892

	25,468,849,845
Net Assets/Equity	(12,060,577,824)

Total Liabilities	13,408,272,021
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Total Income	9,289,377,234
Total Expenditure	15,183,703,089

Deficit	5,894,325,855
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2.3 Unexplained Differences

Even though the loan balance of Rs.8,585.9 Million to be paid to the Bank of Ceylon according to the books of the Board, that balance was Rs.8,589.02 Million according to the balance confirmations of the Bank of Ceylon and a difference was being Rs.3.12 Million.

3. Operating Review

3.1 Management Activities

The following observations are made.

- (a) The 02 stores had been taken over to the Board during year 2016 with capacity of 2,000 and 10,000 Metric Tons built in year 2014 by the Ministry of Economic Development according to the Cabinet approval No.CP/16/0185/732/006 dated 24 February 2016 had received for Cabinet Memorandum No.MREA/CM/2016/7 dated 28 January 2016 had furnished by the Ministry of Rural Economy. A sum of Rs.34,451,514 to be paid to the State Engineering Corporation by the Ministry of Economic Development on behalf of build these stores had been paid by the Board on 17 August 2017 and 16 October 2017 according to the advice of the Ministry of Rural Economy. However, the land existed of these stores complex were being owned to

the Housing Development Authority and had not been taken over to the Board until 15 August 2018. The 25.5 Metric Tons of damaged paddy stock and 7.81 Metric Tons of paddy stock only had been stored from the date of taken over the stores to audited date of 26 December 2017, therefore these stores were being underutilized.

- (b) It had been proposed to be conducted a stock verification and financial audit through an external independent auditor by updating the accounts of the Board according to Cabinet approval No.CP/16/2541/732/037 dated 21 December 2016 received for Cabinet Memorandum furnished on 25 November 2016 by Minister of Rural Economy on the topic of settlement of losses incurred on implementing of paddy purchase programme by the Board. Although verification programmes on paddy in stores of each zones had commenced since 12 June 2017 accordingly, the stocks verification activities in Polonnaruwa and Eastern zone had not been completed until 30 June 2018.
- (c) The financial cost of the Board shown to be increased owing to suitable paddy stocks control system were not being maintained according to observations furnished by the Minister of Finance and Planning in relation to Cabinet Memorandum PE/111/CM/2013 had furnished by the Minister for presentation of the Annual Reports of the Board to the Parliament for the year 2010. Accordingly, it had been handed over to State Trading (General) Corporation to establish a stock control information system by the Board. Although a sum of Rs.13,035,405 had been disbursed by the board from the year 2013 to 30 June 2016 for it, those activities had not been completed even as at 31 July 2018.

3.2 Operating Activities

The approval had been given to settle the prices of the Board from the proceeds after sale of rice and procure the paddy stocks to the customers through whole sale traders, Co-operatives and Lanka Sathosa after convert the paddy into rice which were given to the Co-operative Wholesale Establishment under reasonable price of the paddy stocks owned by the Board via Cabinet Decision No. CP/16/2068/723/053 dated 26 October 2016. Accordingly, 95,935,082 Kilograms of paddy had been issued to the Co-operative Wholesale Establishment by the Board and there was no written agreement had been entered in between Corporation and the Board relevant to 39,179,868 Kilograms of paddy had procured thereof on credit basis. A further outstanding balance was Rs.2,343,579,014 as at 16 November 2017 because of a sum of Rs.1,972,629,100 only had received from the Corporation for paddy issued by the Board.

3.3 Identified Losses

The following observations are made.

- (a) A deficit of 13,379,128 Kilograms of paddy was observed according to physically verified stocks balance and stock records in stocks verification conducted during the year under review.

- (b) The 192,453 Kilograms of paddy had been deteriorated owing to paddy stocks were not issued in right period, damage from insects, infiltrate of rain water into the stores, dampness in floor of the stores and the paddy were not stored properly in floor racks.

4. Sustainable Development

4.1 Achievement of Sustainable Development Goals

All public sector should act in according with the Sustainable Development 2030 “Agenda” of the United Nations and the Paddy Marketing Board had not been aware how to act with the functions under their own scope.

5. Accountability and Good Governance

5.1 Procurements

The paper advertisements had been published in two instances relevant to procurement of Floor Racks conducted by the Board. The quotations received from 03 companies had been rejected relevant to first procurement’s advertisement owing to weaknesses being existed in the quotations furnished by the suppliers and the moisture of the Floor Racks had not mentioned as 20 per cent in the specifications to be existed in Floor Rack. Accordingly, it had to be incurred an additional expenditure of Rs.45,080 on re-advertising. Further, whereas it had been shown that the supplier should have 05 years’ experience according to the new procurement conditions, 10,000 Floor Racks had purchased by disbursed of Rs.51,300,000 during the year under review from a supplier who haven’t 05 years’ experience and 5265 had received out of 9130 Floor Racks were being existed without prescribe standards.

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) Stores Administration	(i) Failure to store paddy stocks following appropriate standards (ii) Failure to maintain stores records/registers up to date. (iii) Failure to maintain computerized stocks control system.
(b) Preparation of Bank Reconciliations	(i) Delays in preparation of Bank Reconciliation Statements. (ii) Failure to settle the unidentified balances.