

## **Sri Lanka Cashew Corporation - 2017**

---

The audit of financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the income statement, 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 23 of State Agricultural Corporations Act, No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act, 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 Public Sector 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 my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

---

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

---

### **2.1 Qualified Opinion**

---

In my opinion, except of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Cashew Corporation as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

### **2.2 Comments on Financial Statements**

---

#### **2.2.1 Sri Lanka Accounting Standards**

---

##### **Sri Lanka Accounting Standard 16**

---

Following non-compliances were observed.

- (a) Due to lack of annually review of effective life time of the non- current assets in accordance with Section 51 of the Standards, though it was fully depreciated assets cost at Rs. 20,623,892 were further being used. Accordingly, the estimated error was not revised in accordance with Sri Lanka Accounting Standard No. 08
- (b) Although it is necessary to disclose in the financial statements the property held as a security of a loan according to the Section 74 of the Standard, it was not disclosed the "Chinthakudiruppuwattha" at Puttalam, which was kept as a mortgage for obtaining a loan of Rs.10,000,000 during the year under review.

#### **2.2.2 Accounting Policies**

---

Although 3.53 per cent of total debtors have been identified as bad debt allocation under accounting policies, identification of damaging losses or provision for bad debts for debtors over 5 years had not been done by the Corporation. However, identification of damaging losses or provision for bad debts had not been done for 07 debtor balances amounting to Rs.10,426,696 which were inclusive in the various debtors balances over 5 years at 31 December 2017.

#### **2.2.3 Accounting Deficiencies**

---

Following observations are made.

- (a) The actuarial profit of Rs. 9,436,077 received from calculation of actuarial retirement benefits had been shown under the income instead of being as reserve and due to that profit was overstated from the same amount.

- (b) According to the depreciation policy of the Corporation though Semi-Permanent Buildings should be depreciate on a rate of 33 1/3 per cent annually, the temporary stall which was constructed by spending a sum of Rs. 537,670 had been depreciated on a rate of 3 per cent annually and due to that depreciation for the year had been understated by Rs. 163,075.
- (c) A sum of Rs. 4,934,221 payable as at 31 December 2017 for the constructions work completed of Eluwankulama Seed Garden and the Kiran circuit bungalow on the certification of the relevant Engineer as at 31 December 2017 had not been shown in the financial statements as work in progress and payable amount.
- (d) The retention amount of Rs. 109,440 relating to the Euwankulam Seed Park which was deducted from the contractor, had not been shown in the financial statements.
- (e) At the payment of Rs. 375,000 which is the monthly rent of the head office building, which is Rs.93,750 deducting from the deposit money had been ignored from the reduction of two months of December in the years 2016 and 2017 and due to that the balance of deposits account and payable account had been overstated by Rs. 187,500.
- (f) During November and December months of the year under review in, 04 air conditioners and 05 computers amounting to Rs. 1,007,325 which were supplied and issued Good Received Notes (GRN) had not taken to assets and payable accounts.
- (g) Repairing expenses of bars and brake of 03 cars during the year under review amounting to Rs.1,016,765 had been capitalized instead of accounting as expenses.

### **2.3 Receivable and Payable Accounts**

---

Following observations are made.

- (a) Action had not been taken to settle loan balance of Rs.3,500,000 exceeding 5 years payable to Paddy Marketing Board.
- (b) Payable audit fees balance of Rs. 499,805 which was exceeding 10 years at the end of the year under review had been included in the payable balance of Rs. 1,699,709 and this amount had been shown in the accounts continuously without action being taken to settle

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

---

Following non-compliances are observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliances</b>
-----	-----
(a) Section 15 of Employee Provident Fund Act No.15 of 1958 and Section 16(1) of Employee Trust Fund Act No. 46 of 1980.	Even though in accordance with the provisions of the Act contributions should be paid to the Fund before the end of the next month, the employer/employee contribution to EPF amounting to Rs.242,873 and the ETF contribution of Rs.28,633 for the year under review and previous years had been withheld without being paid to those Funds even as at 31 December 2017.
(b) Gratuity Payment Act No.12 of 1983.	Even though the gratuity allowance should be paid within 30 days, allowances for 3 officers had been paid during the year with a delay of 13 days to 47 days.
(c) Value Added Tax Act No.14 of 2002 and Nations Building Tax Act No.9 of 2009.	Even though an organization producing goods or supplying goods and the turnover for a quarter exceeding Rs. 3 million or an annual turnover exceeding Rs. 12 million had to be registered for Value Added Tax and Nation Building Taxation, action had not been taken accordingly.
(d) Inland Revenue Act No. 10 of 2006.	Although the Corporation is liable for pay Income Tax, action had not been taken to prepare and pay the relevant Income Tax statements relating to 6 assessment years from 2011/2012 to 2016/2017.
(e) Financial Regulation 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 03/2015 dated 14 July 2015.	Ad-hoc sub imprest amounting to Rs.76,890 issued in 7 instances during the year under review had not been settled even up to 30 April 2018.
(f) Public Enterprises Circular No. PED/12 dated 02 June 2003	Even though a draft annual report should be submit with the financial statements for the year, it was not been so done.

## 2.5 Transaction without Adequate Authority

-----

Non recovery of Festival advances of Rs. 31,219 older than 15 years which had been given to the workers of refinery center of Nedagamuwa owned to Corporation had been written- off to the expenditure of the year under review without Treasury approval.

## 3. Financial Review

-----

### 3.1 Financial Results

-----

According to the financial statements presented, financial results of the institute for the year ended 31 December 2017 had resulted in a deficit of Rs. 42,335,721 as compared to the deficit of Rs. 36,525,411 for the preceding year thus indicating an increase of of the deficit by Rs. 5,810,310 in the year under review when compared with the preceding year. Decrease of the gross profit by Rs.5,489,581of Commercial Division had mainly attributed to this.

In analyzing financial results of the year under review and of 04 preceding years, the net loss of Rs. 9,344,801 for the year 2013 had been fluctuated and it was of Rs. 42,335,721 in the year 2017. However, in considering personnel emoluments and depreciation on non- current assets, even though the contribution of the year 2013 had been a sum of Rs. 73,423,693 and it had been a sum of Rs. 83,261,486 in the year 2017.

### 3.2 Analytical Review

-----

	<b>2017</b>	<b>2016</b>
	-----	-----
Current Ratio	1.39:1	3.20: 1
Average Debt Period (Days)	127	86
Gross Profit Ratio (per cent)	21	28

Following observations are made.

- (a) The ability of covering current liabilities by current assets in 2016 was 3.2 times and it had dropped to 1.39 times and the average debt settling period has increased from 86 days to 127 days
- (b) The gross profit margin was dropped down by 7 per cent in 2017 compared to 2016. The increase in the cost of sales by Rs. 11,535,029 was the reason to drop of the gross profit margin.

## **4 Operating Review**

-----

### **4.1. Performance**

-----

#### **4.1.1 Activities and Review**

-----

Since the year 2000, the Cashew Corporation has implemented an all island cashew cultivation subsidy programme to expand cashew cultivation and increase national production and for that purpose, for 3 years from 2014 to the year 2016, a sum of Rs.191,152,222 had been incurred. During the years 2014, 2015 and 2016 under that programme 304,640 cashew plants were distributed to the farmers in Puttalam, Kurunegala, Anuradhapura, Vavuniya and Mannar districts. However, according to the records of the Corporation in the year 2017 there had remained only 143,325 plants out of the distributed plants were observed. That was a progress of 47 per cent.

### **4.2 Management Activities**

-----

Following observations are made.

- (a) Although the contribution of the Employees Welfare Association of the Corporation totalling to Rs. 886,840 relevant to October and November of the year, had been recovered from the salary of the staff, action had not been taken to pay to the association even by 31 December 2017.
  
- (b) Due to non- calculation of contribution considering the cost of living allowance in terms of the Employees' Trust Fund Act No.03 of 1982, surcharges amounting to Rs. 1,138,508 had to be paid from January 2006 to July 2013, and out of that Rs. 569,253 had been paid during the year under review.

### **4.3 Assets Control**

-----

Action had not been taken to get back 07 mobile phones valued at Rs.148.135 given to former Chairmen of the Corporation.

### **4.4 Uneconomic Transactions**

-----

Although a notice of calling bids was published on 11 October 2017 at a cost of Rs. 49,680 for the construction of a regional office in a land at Weerawila which was not owned by the Corporation, and later due to abandoned of the construction, the expense became a fruitless.

## 5. Sustainable Development

-----

### 5.1 Achievement of Sustainable Development Goals

-----

Every public institution should act in compliance with the United Nations Sustainable Development “Agenda” for the year 2030. With respect to the year under review, the Sri Lanka Cashew Corporation had not been aware as to how to take measures relating to the activities under purview of their scope. Due to failure of in being aware action had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

## 6. Accountability and Good Governance

-----

### 6.1. Procurements

-----

Even though furniture amounting to Rs.490,950 and 4 air conditioners for Rs.410,000 were purchased in the year under review for the use of the circuit bungalow in Kiran, Batticaloa, these purchases were not included in the annual procurement plan.

## 7. System and Control

-----

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

<b>Area of System and Control</b>	<b>Observations</b>
-----	-----
(a) Accounting	(i) Non-compliance with certain Sri Lanka Accounting Standards. (ii) Not obtaining the approval of the officers who have the financial authority to include the Journal notes for the ledger. (iii) Supporting documents not been attached to the Journals.
(b) Assets Control	(i) Failure to check and record of fuel in vehicles. (ii) Not maintaining vehicle log books in an updated manner.