

## **Sri Lanka Cashew Corporation – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Cashew Corporation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Auditor's Responsibility in Auditing Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

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Non-compliance	Comments given by the Management	Recommendation
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(a) Even though 43 motor vehicles at a cost of Rs. 40,294,448 had fully depreciated were further being used, actions had not been taken to revalue those motor vehicles and taken in to financial statements in accordance with Standard 16 .	As there is a difficulty in making financial allocations for this, actions will be taken to complete the revaluation activities and taken in to accounts as soon as the sufficient funds have been received.	Action should be taken to state the relevant revaluation value in the financial statements considering the future effective lifetime of motor vehicles.
(b) Even though a provision of Rs. 27,703,878 had been made available for the payment of pension gratuity in terms of Paragraph 139 of Standard 19, and also an investment plan with regard to the pension gratuity obligation should be prepared to minimize the risk of future liability, actions had not been taken accordingly.	Since the non- availability of provisions from the Treasury for the payment of pension gratuity within the stipulated time, there is no possibility of formulating an investment plan. When the financial situation is favorable, the attention will be paid in this regard.	Actions should be taken to implement an investment plan to minimize the future liability risks.

### 1.5.2 Accounting Deficiencies

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Audit Observation	Comments given by the Management	Recommendation
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(a) The balance of Rs. 1,726,013 transferred from work in progress account to building account due to termination of work had been shown as cash inflow under investment activities of statement of cash flows.	Actions will be taken to furnish an amended cash flow statement by making relevant corrections.	The cash flow statement should be prepared exactly considering only the actual cash inflows of the year.
(b) Although the agricultural assets should be valued and taken in to accounts at fair value in accordance with Sri Lanka Accounting Standards No. 41, a sum of Rs. 79,026,608 had been shown in the financial statements as agricultural assets without computing the fair value of cashew plantations which were the agricultural assets of the Corporation.	It is further stated that the auditors at that time had acted to remove this paragraph from the Auditor General's Report.	The agricultural assets should be taken in to accounts at fair value in accordance with the Standard 41.

### 1.5.3 Lack of Evidence for Audit

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Item	Amount Rs.	Audit Evidence unavailable	Comments given by the Management	Recommendation
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(a) Final Stock				
Cashew nuts	7,589,946	Stock records to verify the availability of last stock.	The Corporation has records of all stocks.	Submission of relevant source reports to audit as requested to ensure the availability of the closing stock.
Cashew Seeds	3,570,764			
Cashew plants	3,167,807			

(b)	Damaged Cashew Plants	1,007,126	Report on damaged plants in relation to damaged cashew plants.	It has been taken in to accounts as per the information sent to the Head Office by the Supervising Officers of the Nurseries. It is possible to submit relevant reports.	Reports of damaged plants should be furnished to audit.
(c)	Sundry Creditors	853,000	Balance confirmation letters of creditors	Actions will be taken to furnish the balance confirmation letters as soon as possible.	Balance confirmation letters should be furnished to audit to verify the accuracy of credit balances.

**1.6 Accounts Receivable and Payable**  
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**1.6.1 Receivables**  
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Audit Observation -----	Comments given by the Management -----	Recommendation -----
Despite a balance of Rs.13,263,982 was not recovered for more than 07 years out of the balance receivable as at end of the year under review amounted to Rs.17,483,950 actions had not been taken to recover that balance.	Actions will be taken to recover these balances in future.	Action should be taken to recover the balances in due.

**1.6.2 Amounts Payable**  
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Audit Observation -----	Comments given by the Management -----	Recommendation -----
The balances of Rs. 4,923,343 out of the balance of Rs. 23,691,408 payable as at end of the year under review had remained for more than 07 years and although the balance of Rs. 709,250 remained between 03 - 07 years, actions had not been taken to settle those balances .	Actions will be taken to settle the balances in future.	Actions should be taken to settle the balances payable .

## 1.7 Non-compliance with Laws, Rules and Regulations etc.

Instances of non-compliances with Laws, Rules and Regulations etc. are appear below.

<b>Reference to Laws, Rules, and Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments given by the Management</b>	<b>Recommendation</b>
(a) Employees' Gratuity Act No. 12 of 1983	Although the gratuity should be paid within one month after the employee retires from the service, actions had not been taken to pay a sum of Rs. 2,108,918 even by 31 May 2019 for 5 employees who had got retired in the year under review.	Gratuity payments have been delayed due to financial difficulties of the Company and once the sufficient funds have been available, actions will be taken to complete the balance payments.	Actions should be taken in accordance with the Gratuity Act.
(b) Decision of the Committee on Public Enterprises dated 24 July 2012 .	Although it had been instructed by the Committee on Public Enterprises to take actions to take over the ownership of lands which were not legally acquired, the activities relating to the acquisition of 15,329 acres of cashew planting lands to the Corporation had not been completed even up to 31 May 2019.	For the process of acquiring the legal ownership of the lands takes a very long time and necessary activities are being carried out in collaboration with the Line Ministry.	Actions should be taken to report on the Decisions of the Committee on Public Enterprises.

## 1.8 Non-compliance with Tax Regulations

<b>Audit Observation</b>	<b>Comment given by the Management</b>	<b>Recommendation</b>
(a) Although the Corporation is subjected to income tax liability according to the Inland Revenue Act No. 24 of 27 October 2017, actions had not been taken to pay income taxes from the year 2012 to the year 2018 .	The relevant income tax returns are being prepared. There is a time delay because of the income statements should be prepared for several years.	Actions should be taken to pay income taxes as per the Act.

- (b) If the taxable goods, services or supplies exceed Rs.12,000,000 per annum as per the Value Added Tax Act No. 25 of 2018 (Amended) and the Nations Building Tax Act No. 20 of 2018 , it should be registered and paid Value Added Tax (VAT) and Nation Building Tax (NBT). Despite the turnover of the Corporation for the year 2018 was Rs. 94,930,802 , actions had not been taken to register for VAT/ NBT and pay the relevant taxes.
- Since the taxes stated here could create an adverse effect on the sale price, a written request has been made from the Ministry of Finance through the Line Ministry to obtain special tax relief. It has been decided to proceed further, depending on the response thereon .
- Actions should be taken to pay taxes as per the Act.

## 2 **Financial Review**

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### 2.1 **Financial Results**

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As per the financial statements presented for the year under review, the operating result of the Corporation was a deficit of Rs. 39,642,728 and the corresponding deficit for the preceding year was a sum of Rs. 42,335,722 . A decrease of Rs. 2,692,994 in deficit was observed as compared to the preceding year . The decrease of cost of sales in Commerce Division by Rs. 19,159,397 had been the main reason for that .

## 3. **Operational Review**

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### 3.1 **Uneconomic Transactions**

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#### **Audit Observation**

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A sum of Rs. 103,787 had to be paid as the surcharge of the year under review due to non-payment of contributions to the Employees Provident Fund as prescribed.

#### **Comment given by the Management**

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As a result of the failure of paying Employee Provident Fund within the stipulated time has resulted in overdue payments because of the financial difficulties of the Corporation.

#### **Recommendation**

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Payment of contributions should be made in terms of the Employees Provident Fund Act.

### 3.2 Management Inefficiencies

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Audit Observation	Comment given by the Management	Recommendation
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<p>(a) Although the market price of a kilogram of husk cashew had ranged between Rs. 390 and Rs. 505 in the year under review , the cost of production of a kilogram of husk cashew in the Estates of the Corporation had ranged between Rs. 541 and Rs. 2,679. It has been affirmed that the measures taken by the management to reduce production costs were inadequate.</p>	<p>The production cost has been computed considering all the other expenses including the direct costs in relation with this. We feel that it is correct to calculate production costs considering only the direct costs and compare them with market prices. Various measures have been taken to minimize the cost.</p>	<p>Actions should be taken to take practical measures to minimize the cost of production of cashew in the Estates belonging to the Corporation.</p>
<p>(b) The yield of husk cashew received in the year under review from Estates belonging to the Corporation was 99,119 kilograms and because it was not sufficient to fulfill the orders received, 6,299 kilograms of cashew nuts had to be purchased from outside. Accordingly, the measures taken to increase the production of Estates and to manage the yield receiving from the Estates had been inadequate.</p>	<p>As failure to obtain the targeted total cashew yield due to weather and climatic conditions prevailing during cashew harvest, the cashews had to be purchased from outside to fulfill orders for processing purposes.</p>	<p>Necessary measures should be taken to increase the production and manage the harvest properly.</p>
<p>(c) Even though the cultivation of edible crops and betel are being carried out acquiring approximately 160 acres of Suduwathura Ara Seed Garden and 10 acres of land at Ottukulama Division, Kamandaluwa Estate by external parties, measures had not been taken to conduct required legal actions to acquire these lands again.</p>	<p>The measures taken by the Corporation by now on the acquisition of lands at the Kamandaluwa Estate and Seed Park has been submitted to the Audit. ( Complaints were made to police)</p>	<p>The legal actions should be taken with regard to the acquisitions of lands belonging to the Corporation by external parties .</p>



- (d) Although the charges were being made from the monthly salary of the employees for the Medical Assistance Scheme implemented from 04 June 2013, and expenditure had not been reimbursed for a period of 02 years for bills submitted by employees under this Scheme for external treatments and hospitalized treatments .
- These medical payments have been delayed due to the financial difficulties of the Corporation. All these payments will be made as soon as the financial difficulties get better.
- Action should be taken to pay for the related bills relevant to Medical Assistance Scheme .

### 3.3 Operational Inefficiencies

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<b>Audit Observation</b>	<b>Comment given by the Management</b>	<b>Recommendation</b>
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<p>(a) Out of the number of 275,320 seeds and bud cashew plants distributed in the year 2015, a number of 208,921 had failed and out of a number of 258,700 seeds and the bud cashew plants distributed in the year 2016 a number of 142,344 had failed under the subsidy programme of distribution of cashew plants by the Corporation. Distribution of seedlings under subsidy programs in the last quarter of the year by obtaining seed buds in May and June and planting of seedlings those were unable to withstand weather conditions , vacancies in 27 Cashew Development Officers of the Corporation, and one officer to oversee several Divisional Secretariats had affected to that failure and the Corporation had not taken necessary action in this regard.</p>	<p>Lack of water, damages to wildlife, weather and environmental impacts, and certain other factors had affected to destroy cashew plants and the Board of Directors has taken several measures for this. The shortage of Cashew Development Officers has caused the financial difficulties of the Corporation and as soon as it is being better , new recruitments and the duty assignments will be made.</p>	<p>Actions should be taken to Plan to plant the plants as they are resistant to weather and environmental impacts and to fill the vacancies of Cashew Development Officers.</p>

- (b) Even though a sum of Rs. 3,388,611 had been spent for the Research Centers in Puttalam and Kamandaluwa in the year under review, no new researches on cashew cultivation and by-products had been commenced during the year under review and there were only 08 ongoing researches from previous years at both centers.
- The reviews of the Cashew Research Management Committee of the Corporation are being carried out and, these committee reports are submitted to the Board of Directors for necessary decision making.
- The progress reports need to be prepared to review the progress of the Research Centers and actions should be taken to commence new researches on by-products as well.

### 3.4 Idle or Underutilized Property Plant and Equipment

Audit Observation -----	Comment given by the Management -----	Recommendation -----
Even though the old boiler system for more than 24 years used for cashew boiling at Puttalam Cashew Processing Center had been inactive for nearly 10 years, actions had not been taken to dispose that boiler system .	The technical officer has stated that the boiler is in dilapidated condition at present and as not suitable for use. Therefore, actions will be taken to dispose it in future.	Since it is unusable, actions should be taken to dispose it.

### 3.5 Deficiencies in Contract Administration

Audit Observation -----	Comment given by the Management -----	Recommendation -----
Even though a Threshing Floor for drying cashew and a building had been constructed at Eluwankulama Seed Garden in the year incurring sum of Rs. 2,389,757 (with taxes), due to the lack of proper supervision on the related work, the walls, which had been filled with block stones had been cracked between the concrete base of the threshing floor of the concreted floor and the structure of the H iron bars. Similarly, despite the H iron bars had been attached to the previous foundation, the foundation had erupted from place to place and measures had not been taken to rectify these shortcomings up to now.	The contractor has been informed to rectify a repair error. Until that work is completed, the retention money of the contract will not be released.	Disciplinary action should be taken against the officers who recommended the payments despite the availability of material shortcomings in the construction works.

**4. Accountability and Good Governance**  
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**4.1 Sustainable Development Goals**  
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<b>Audit Observation</b> -----	<b>Comment given by the Management</b> -----	<b>Recommendation</b> -----
Every public institution should act in compliance with the United Nations 2030 "Agenda" on Sustainable Development, due to lack of awareness of the Sri Lanka Cashew Corporation how to take measures relating to the activities under purview of their scope relating to the year under review, actions 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.	There is no awareness of this. Necessary arrangements will be made in the future.	To act according to the Sustainable Development Agenda.