

Palmyrah Development Board – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Palmyrah Development Board “Board” for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, 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 Finance 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 Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards Generally Accepted Accounting Principles, 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 of the Board.

1.4 Audit Scope

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 Company'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 Company'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 the Company to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
The fully depreciated assets valued at Rs. 23.7 million and still in used by the Board, had not been revaluated according to the SLPSAS 3 in order to correct the estimation error.	Board already submitted to Department of Valuation for revaluating following assets. Lorry - 02 Indian Pickup - 04 Pajero – 01 Fruit based production centre machineries.	Reasonable estimates should be used in preparation of financial statements.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Cash proceeds of Rs. 563,500 received from selling of 03 vehicles during the year under review had not been included under the investment activities in the cash flow statement	Rs. 563,500 from selling of 03 Vehicles had been included in miscellaneous income during the month of July 2018 (01-07-2018) ended in miscellaneous income as follow. P/23 760988, P/23 760989 and P/23 760990. Total miscellaneous income had entered on 01-07-2018 is 631,646.	Cash proceeds from investment activities should be recognized clearly in the cash flow statement

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue -----	Management Comment -----	Recommendation -----
Action had not been taken to recover the debts aggregating of Rs. 4,759,319 receivable from 10 parties with aging from 2 to 6 years. In addition, the Board was unable to obtain balance confirmation letters from 12 debtors with outstanding balance of Rs. 5,316,695.	<ul style="list-style-type: none"> • Periodically sent letters • Legal action will be taken as per the legal advice • Submitted to Legal advisor for further action 	Proper actions should be taken to recover dues in time.

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

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Management Comment -----	Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka:			
(i) Financial Regulations 110	A register of losses and damages had not been maintained by the Board.	Board has been initiated the Maintenance of loss and damage register as per the financial regulation.	Should comply with the Financial Regulation.
(ii) Financial Regulations	Even though the paid vouchers should be forwarded to audit	Board has been facing delay of receiving	Should comply with the Financial

272(3)	monthly, not later than six weeks from the end of the month to which they relate, the Board had not forwarded those vouchers to audit accordingly.	acknowledgement from the other districts. However, Management has taken necessary steps to avoid this shortcoming and arrangements are made to submit the documents on proper time in future.	Regulation.
(iii) Financial Regulations 751(1)	<ul style="list-style-type: none"> • The register of inventory had not been properly maintained showing clearly the receipts, issues and the balance carried forward. • Many deficiencies in recording of purchases in the stock books and maintenance of inventories at the stores were observed in audit tests. 	Management has accepted the deficiencies in record of purchase and maintenance the stock books and inventory. Board has implemented training programmes for the relevant staff and strengthened internal auditing system for overcome these deficiencies.	Should comply with the Financial Regulation.
(iv) Financial Regulations 757(1)(c), (2)(a),(b)	<ul style="list-style-type: none"> • Reports of the Annual Board of Survey had not been submitted to audit. • Recommendations included in the previous Board of Survey reports had not been properly implemented by the Board. 	Action has been taken to submit the audit. Recommendation of previous Board of Survey report has been implemented.	Should comply with the Financial Regulation.

(b) Public Enterprises

Circular No.
PED/12 of
02 June 2003:

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|----------------------|---|--|---|
| - Paragraph
4.2.2 | Monthly performance statement in financial and physical terms, operating statement for the month, cash flow statement for the month, liquidity position and borrowings to procurement of material, especially non-current assets purchased during the month and statement on human resources including cadre position, new recruitment etc. had not been furnished to the monthly board meeting according to the circular requirements. | Management has been taken action to submit reports monthly to the board meetings. | Should comply with the instructions of the Public Enterprises Circular. |
| - Paragraph
4.2.5 | The Board had not introduced a system for effective management of Board working capital. | Management has been taken the proper action for reviewing by Board of Directors as its monthly meetings. | Should comply with the instructions of the Public Enterprises Circular. |

2. Financial Review

2.1 Financial Result

The operations of the Board during the year under review had resulted a deficit of Rs. 98,799,862 and the corresponding deficit in the preceding year was amounted to Rs. 131,952,115. Therefore, an improvement amounting to Rs. 33,152,253 of the financial result was observed. The reasons for improvement were decreasing the research, development and training expenditure by Rs. 39,705,819 in the year under review.

3. Operational Review

3.1 Identified Losses

Audit Issue -----	Management Comment -----	Recommendation -----
Four Model Farms had been running at a loss continuously. The losses sustained during last 4 years with ranging from Rs. 3 million to Rs. 1.2 million. Further, the activities of four Models Farms with the total land extent of 128 acres had not been initiated since the year 2010.	Loss of farm due to the watchers cost and depreciation. Anyhow, new agricultural technology had been introduced by the Management.	Suitable strategies should be designed and implemented to improve the system.

3.2 Management Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
Three food items such as odiyala, dry odiyala and pannaddu raw valued at Rs. 584,000 had been destroyed during the year under review due to lack of proper facilities to store them safely.	Therefore, actual losses are Rs. 584,000 inquiry for above losses still on going. As per the inquiry committee decision, Management will recover the losses from the relevant staff.	Proper system to be implemented for minimizing losses.

3.3 Operational Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
Although a sum of Rs. 744,800 had been paid to 21 Divisional Secretariats and the Forest Department for the plantation of palmyrah seeds under the development activities in the year under review, plantation activities had not yet been initiated by those entities.	We had released fund on December. Therefore, Divisional Secretaries couldn't implement on proper time. In future, Management should consider the releasing of fund in proper time.	Actions should be taken release funds in time.

3.4 Under -utilization of Funds

Audit Issue -----	Management Comment -----	Recommendation -----
Proper actions had not been taken by the Board to utilize the budgetary provisions made by the Ministry amounting to Rs. 112.5 million, Rs. 150 million and Rs. 250 million in the years of 2016, 2017 and 2018 respectively for renovation of the Thickam Distillery. As a result, 23 direct employment opportunities and estimated Excise and other Tax revenues of Rs. 119 million on liquid production had been lost by the country. Further, Livelihood of 15,000 Nos. of palmyrah depending families had been badly affected due to loss of supply chain of palmyrah production to the Board and approximate Litres of toddy 30,000 production was wastage per day due to non-functioning of distillery production.	Actions are taken by Line Ministry.	Budget estimates should be prepared and implemented properly.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue -----	Management Comment -----	Recommendation -----
(a) An RO Plant purchased by the Board at a cost of Rs. 2,914,560 on 25 November 2016, had not yet been utilized for any activity and remained idle for more than 03 years.	The RO Plant was purchased in 2016 under 'Livelihood Development Project' by Palmyrah Development Board. The operational demonstration had been performed at the Production Unit at Stanley Road, Jaffna. The Plant has now been transferred to Velanai Society upon the request of the Society as the building infrastructure for pulp processing had been recently completed at Velanai Society and they needed the RO Plant for efficient processing of Pulp.	Immediate actions to be taken to utilize the plant for the intended purpose.
(b) The Board had procured three (3) numbers of jaggery processing plants during the year under review at a cost of Rs. 20,862,150 to locate in Jaffna, Mannar and Trincomalee Districts. However, those plants had not yet been utilized for any production activities and also, depreciation amounting to Rs. 4,172,430 had been charged in the financial statements for the year under review.	03 jaggery plants had been commissioned later part of the Sap flow seasons during the year of 2018. Now, 02 jaggery plants are operating at Mannar & Trincomalee. Other plant is in working condition, but due to the repair works at Karainagar production Centre operation is delayed.	Plants should be utilized for the intended purpose

3.6 Delays in Projects or Capital Work

Audit Issue -----	Management Comment -----	Recommendation -----
The board had released a sum of Rs. 25 million in September 2018 to the Department of Building (Central) to construct a two storied building for the Palmyrah School at Kaithady and, the construction works had expected to be completed on 12 March 2019. However, out of that amount only a sum of Rs. 8.25 million or 33 per cent had been utilized for that purpose up to the date of this report.	Management strictly informed to the Department of Buildings for accelerate the building works without further delay and within the estimate cost in prompt time.	Construction works should be completed without delay.

3.7 Unsettled Audit Issues

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Internal Auditor of the Board had been working at the University of Uva-Wellasa as a Senior Assistant Internal Auditor without getting any approval and, had obtained a salary amounting to Rs. 600,000 from the University of Uva-Wellasa in addition to the salary for the permanent job at the Board.	(a) & (b) Line ministry instructed to management for independent inquiry for this matters District Secretary (Jaffna) already appointed on preliminary inquiry officer for further action.	Immediate actions should be taken to finalize the case.
(b) Further, it was revealed that forge documents had been prepared by the Internal Auditor of the Board and he had obtained a sum of Rs. 72,000 (approximately) as traveling claims from the Board during the period when he was working as the Senior Assistant Internal Auditor of the University of Uva-Wellasa.		
(c) A sum of Rs. 4,280,600 had been paid to 8 managers as salary increments over the limit	(c) & (d) Ministry inquiry committee had suggested	Immediate actions should be taken to

approved by the Scheme of Recruitment by the Board.

to recovery from the respected manager. However, Managers appealed to line ministry Secretary and appeal process are going on. recover the amount.

(d) Further, a sum of Rs. 627,577 had been paid incorrectly for EPF and ETF payments relating to the above mentioned 8 numbers of managers based on overpayments of increments made by the Board even after the approval of the Scheme of Recruitment by Department of Management Services.

3.8 Procurement Management

Audit Issue -----	Management Comment -----	Recommendation -----
A Procurement Plan had not been prepared and rendered to audit at the beginning of the year in terms of Guidelines 4.2 of the Procurement Guidelines - 2006. Also in term of section 4.2 of the National Procurement Agency Circular No. 08, dated 25 January 2006, the procurement activities expected for a period of at least 03 years should be listed and the main procurement plan should be prepared by the procurement entity. However, such a procurement plan was not made available to audit.	Procurement plan had been prepared and handed over to the Ministry and Department of Public Enterprises with the timeframe. However, we didn't submit to General Audit in proper time. In future, management has taken necessary action for rendered to audit in terms of Guide lines 4.2 of the Procurement Circular 2016.	Should comply with Procurement Guidelines and National Procurement Agency Circular

3.9 Human Resources Management

Audit Issue -----	Management Comment -----	Recommendation -----
A person had been promoted to the post of Deputy General Manager by the Board during the year under review in contrary to the requirements of the Scheme of Recruitment approved by the Department of Management Services in 2009 and two officers in the Junior Manager category had been promoted to the posts of Production Manager and Internal Auditor in contrary to the said Scheme of Recruitment.	Instructions are expected from Line Ministry.	Should comply with SOR