

Palmyrah Development Board - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Palmyrah Development Board “Board” for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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, 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 Board'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 Board 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 (SLPSAS)

No	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i)	According to SLPSAS – 3, in the absence of a SLPSAS that specifically applies to a transaction, other event or condition, management could develop and apply suitable accounting policy for such circumstances and such policies specifically disclosed in the financial statements. However, without being adhere to that requirement, it had been stated in the financial statements that both of the Generally Accepted Accounting Principles (GAAP) and SLPSAS were applied to the preparation of financial statements of the Board without mentioning specific areas covers under GAAPs other than SLPSAS, misleading the users of the financial statements.	We prepare the financial statement based on the 2018 annual report and from this year we will follow the Sri Lanka Public Sector Accounting Standards with the management approval.	The financial statements should be prepared based on the SLPSAS by applying unique basis.
(ii)	The statement of financial position had been prepared without being adhered to the accepted format stipulated in the SLPSAS - 1.	Management has been taken the proper action. According the recommended standards implementing from this year statement with board and line ministry approval.	The format of the financial statements should be complied with the SLPSAS – 1.
(iii)	The disclosure relating to the fully depreciated assets, but still in use, amounting to Rs. 5.5	Management has taken proper action. According	The assets should be accounted and

million had not been made in the financial statements as per SLPSAS – 7. As well, the estimation error of the useful life of those assets had not been rectified according to SLPSAS – 3.

the recommended standards implementing from this year statement.

shown in the financial statements according to the requirement of SLPSAS – 7.

1.5.2 Accounting Deficiencies

No	Audit Issue	Management Comment	Recommendation
(i)	Even though the Board had classified its expenses by nature as per the SLPSAS – 1, the depreciation expenses amounting to Rs. 43,557,310 had been included in the administrative expenses instead of being shown separately in the statement of financial performance.	Management has taken the proper action. According to the recommended standards implementing from this year statement.	The recurrent expenditure should be categorized according to the SLPSAS - 1.
(ii)	Instead of being charged the provision for gratuity amounting to Rs. 4,139,196 for the year under review to the statement of financial performance, the actual gratuity payment made during the year under review amounting to Rs. 8,021,635 had been charged as expenses. The difference between the gratuity provisions and the actual gratuity payment amounting to Rs. 3,882,439 had been accounted for as other income. As a result, the gratuity expenses and other income for the year under review had been overstated by Rs. 3,882,439.	Management has taken the proper action. According to the recommended standards implementing from this year statement.	The adjustments to the gratuity provisions and payments should be made in the accounts according to accounting principles.
(iii)	A sum of Rs. 25 million had been paid to the Buildings Department to construct a building and the value of certified works as at the end of the year under review was Rs. 11.45 million. However, the entire payment had been capitalized instead of being separately accounted it as work in progress and advance receivables.	Management strictly informed to the Department of Buildings for accelerate the building works without further delay and within the estimate cost in prompt time.	Work in progress should be accounted according to the accepted policy of the Board.
(iv)	Amortization of Research and Development costs amounting to Rs. 18,322,925 had been deducted from the Equity and Liabilities instead of being shown in the statement of financial performance as expenditure. As a result, the profit for the year under review had been understated by that amount.	Amortization of funded project we already spend so that we without any defeat from the financial statement.	There must have a policy for accounting of Research and Development expenditure approved by the Board.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Proper actions had not been taken by the Board to recover debtor balance aggregating Rs. 5,116,689 from 13 debtors, which was outstanding for over two years. As well as the Board had not obtained balance confirmation letters from 15 debtors with outstanding balance of Rs. 5,211,023.	Periodically sent letters, legal action will be taken and submitted to legal advisor for further action. When reactivate the Thickam Distillery, Management will recover the Rs. 1,609,453 outstanding from them.	Remedial actions should be taken to recover dues in time.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Accounts payables balance of Rs. 600,780, included in the outstanding balance in the financial statements, had been remained unsettled for more than five years.	Relevant company had not submitted the needed technical and other relevant chemical related documents for payments. Therefore, board had not paid the Rs. 600,780 to above mention firms.	Appropriate action to be taken to identify prevailing liability, if there is no liability that amount could be written-off.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Stamp Duty Act (Special Provision) No. 12 of 2006 and (Amendment) Act No. 10 2008.	Even though the stamp duties should be deducted from the payments made over Rs. 25,000, the stamp duties had not been so deducted and remitted to the Department of Inland Revenue as stipulated in the Act, relating to the payment of Rs. 1.7 million in 17 instances.	We accept above finding regarding stamp duty. According my knowledge all the suppliers submit the 25 rupees worth stamps when they collect the cheque from the finance division paid by cashier, but our cashier not fixed the stamp on the voucher.	Should be complied with Stamp Duty Act

(b) Circulars:

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| (i) Public Enterprise Circular No. PED 2/2015 dated 25 May 2015 | The maximum communication allowances of Rs. 7,001,632 had been paid to the officers of the Board for the period from 2015 to 2019 instead of being reimbursed the communication bills. | We stop to pay as telephone allowances with the salary and the payment will be made from October 2020 onwards based on their bills only. | Should be complied with the instructions of the Public Enterprises Circular. |
| (ii) Section 6.5 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 | (i) The financial statements of the Board for the year 2019 had been furnished to Audit on 24 July 2020 with the delay of 146 days.

(ii) Annual Reports of the Board for the years of 2016, 2017 and 2018 had not been tabled in Parliament. | Last year (November 2019) our Board newly purchased the accounting package. This package system updating in our all computers (infrastructure development) and also trained our staffs for the usage it takes some time. We upload and entering all the manual data of the Head office and the District centers. Therefore, submission of the statement bit delayed. We faced COVID 19 lock down and restriction of the staff attendance for works also affected our regular progress of the preparing reports. Management has taken necessary actions for tabling the Annual Reports in Parliament. | Should be complied with the instructions of the Public Enterprises Circular. |
| (iii) Public Enterprises Circular No. PED/31 of 01 July 2005 | Even though at least one Audit and Management Committee meeting should be held in every quarter of a year, audit committee meetings had not been conducted in the first and third quarters in the year under review. | In year 2019, Four Management Committee meetings have been conducted by the Internal Audit Division of the Palmyrah Development Board. Even though, only three meetings had been held during the year, we unable to conduct the meeting due to Appointment of Committee Members of the Board. | Should be complied with the instructions of the Public Enterprises Circular. |

(iv) Management Service Circular No. 34(ii) dated 30 March 2010	The combined allowances for travelling amounting to Rs. 453,542 had been over paid to the staff of the Board during the year under review contrary to the Circular instructions.	We calculate and paying travelling claim vouchers according the Department circular. According to your findings we accepted our wrong calculation and payment. From this year we fallow management services circular 34 (II) and also, we calculate last year over payment details and recover from the respective staff members as soon as possible.	Should be complied with Management Service Circular instructions.	
(v) Section 4.2 of the National Procurement Agency Circular No. 08, dated 25 January 2006	The main procurement plan was not furnished to audit.	Procurement plan had been prepared and handed over to the Ministry and Department of Public Enterprises in time, but, unable to submit it to General Audit in proper time. In future, we will render to audit in terms of Guide lines 4.2 of the Procurement Circular 2016.	Should be complied with Procurement Guidelines and National Procurement Agency Circular.	
(C) Scheme of Recruitment	Section 4.4 of the Scheme of Recruitment (SOR) of Palmyrah Development Board	Eight managers those who had not been completed the Efficiency Bar exams, had been confirmed in their posts contrary to the requirements of the Scheme of Recruitment (SOR) of the Board.	In 2019, the Palmyrah Development Board and the Respective Ministry were informed and training programs were conducted with the necessary approvals and the examinations were conducted for all staff members and the evaluation report is issued separately along with their certificates to the staffs. In 2019, training courses have been conducted for high level managers with the approval of the Board of Directors and the relevant Ministry.	Should be complied with Scheme of Recruitment

2. Financial Review

2.1 Financial Result

The operations of the Board during the year under review had resulted in deficit of Rs. 79,121,048 and the corresponding deficit in the preceding year was amounted to Rs. 75,896,207. Therefore, deterioration amounting to Rs. 3,224,841 of the financial result was observed. The main reasons for that deterioration were increasing the administrative, selling, distribution and production expenditure by Rs. 7,028,890 in the year under review.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
Administrative and establishment expenses totaling Rs. 5,370,311 had been continuously incurred for five model farms over the period from 1 to 9 years without generating income. Further, Delft model farm had been maintained for more than 9 years incurring Rs. 1,132,746 without being generated any income.	Introduce the new short-term income generation activities also re-plantation and management assigned a permanent employee for the maintenance of the Farm. In the earlier stage we plan to develop with our capacity and spend. We planted palm trees previous year and not expend any more at the movement. But this model farm still under the Palmyrah Development Board.	Suitable strategies should be designed and implemented to improve efficiency of the operations in order to increase the profitability.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
A Water Treatment Plant (RO Plant) had been purchased by the Board at a cost of Rs. 2,914,560 on 25 November 2016. However, that plant had not yet been utilized for any activity and remained idle for more than 04 years.	The operational demonstration had been performed at the production activities. During the period, this plant came under repair. Suppliers recommend doing a major repair. So, with the board approval we transfer above machine to respective company to repair. RO plant will be used for our official and production Research purpose it will be reinstalled in operational level at the Palmyrah Research Institute at Kaithady within one month.	Immediate actions to be taken to utilize the plant for the intended purpose.

3.3 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
A sum of Rs. 25 million had been released in September 2018 by the Board to the Department of Building (Central) to construct a two storied building for the Palmyrah School in Kaithady, and it was planned to complete the constructions on 12 March 2019. However, it was observed that only a sum of Rs. 11.24 million or 45 per cent of the paid amount had been utilized even up to end of October 2020.	Management strictly informed to the Department of Buildings to accelerate the building works without further delay and within the estimate cost in prompt time.	Construction works should be completed within the scheduled time period.

3.4 Irregular Payment

Audit Issue	Management Comment	Recommendation
A sum of Rs. 649,467 of language allowances had been paid to the officers by the Board without being obtained any approval from the Department of Management Services.	Language allowances which are paid to the officers stated in details are being paid as per the Public Administration Circular No. 29/98 and the eligibility of the respective officers of the Palmyrah Development Board. Management of the Board will take necessary steps for obtaining the approval from the relevant authority. We stop relevant payment from October 2020 until get the approval.	Should be obtained approval from the Department of Management Services for the payment of such allowances.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
Approval from the Management Service Department for excess cadre of 2 posts of the Instructors had not been obtained. Further, proper actions to fill 22 posts of vacancies in different categories had not been obtained by the Board.	Internally, new appointments have been audited during the year 2018 by the request of chairman. Existing Cadre also has been analyzed for the fulfilment.	Should be complied with approved cadre

3.6 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
Even though the Board had been using 07 vehicles, which were owned by the line Ministry and other Ministries since the year 2014, necessary actions had not been taken by the Board to get the ownership transferred.	We identified these issues as well and we agree to transfer the all vehicle under our board. Some steps take forward until now and also, we contact with relevant Ministry for the suitable action as soon as possible.	Actions should be taken to transfer the ownership of the motor vehicles.

3.7 Unsettled Audit Issues

No	Audit Issue	Management Comment	Recommendation
(i)	Although Scheme of Recruitment was approved on 15 May 2009 by the Department of Management Services, the management of the Board had not considered the Scheme of Recruitment at the time of promoting staff internally.	Most of the staff had appointed on before SOR approved date (15 th May, 2009). As per discussion with Department of Management Services, we had submitted unqualified staff details with justifications for further actions.	Should be complied with the procedure of the Scheme of Recruitment.
(ii)	<p>A person had been promoted to the post of Deputy General Manager by the Board during the year in contrary to the requirements of the Scheme of Recruitment approved by the Department of Management Service since 2009. Details are as follows.</p> <ul style="list-style-type: none"> - The promoted officer had not been confirmed in the post of manager in grade I in any division of Palmyrah Development Board. - Minimum required experience of 05 years satisfactory service in Grade I had not been completed by that officer at the time of promotion. - That officer had not passed the efficiency bar examination of his earlier post. 	In accordance to the Board of Directors Meeting held on 10 th of September, 2020, the interview held in 2018 to select the Deputy General Manager (DGM) of Palmyrah Development Board (PDB) was cancelled.	Should be complied with the procedure of the Scheme of Recruitment.

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| (iii) | <p>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. Following observations are made in this regard. At the time of promotion,</p> <ul style="list-style-type: none"> - both officers had not been confirmed in their earlier posts; - both officers had not passed the first and second efficiency bar exams at the junior level posts; - both officers had not been promoted Junior Manager Grade II post to Junior Manager Grade I post; - both officers had not completed 15 years services in the Board which was the minimum required experience in the Board to apply for that post as per the SOR; - both officers had not satisfactorily completed the minimum requirements for the promotions as per the approved Scheme of Recruitment. | <p>In accordance to the Board of Directors Meeting held on 10th of September, 2020, the interview held in 2018 to select the Deputy General Manager (DGM) of Palmyrah Development Board (PDB) was cancelled</p> | <p>Should be complied with the procedure of the Scheme of Recruitment.</p> |
| (iv) | <p>Adjustments for the salary anomalies identified by the Board had not been done even after getting the approval for the Scheme of Recruitment.</p> | <p>Management comments were not provided.</p> | <p>Should be complied with the procedure of the Scheme of Recruitment.</p> |
| (v) | <p>Internal Auditor of the Board had been working at the University of Uva Wellasa as well as a Senior Assistant Internal Auditor without getting any approval and, had obtained a salary of Rs. 600,000 from the University of Uva Wellasa in addition to the salary for the permanent job at the Board.</p> | <p>In accordance to the Board of Directors Meeting held on 10th of September, Mr. R. Rameshwaran, former DGM of Palmyrah Development Board has been subjected to compulsory leave in order to conduct a formal disciplinary inquiry against him.</p> | <p>Immediate actions should be taken to finalize the inquiry.</p> |

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| (vi) | Further, it was revealed that fraudulent documents had been prepared by the Internal auditor of the Board and he had obtained a sum of Rs. 72,000 (approximately) as travelling claims from the Board during the period when he was working as the Senior Assistant Internal Auditor of the University of Uva Wellasa. | In accordance to the Board of Directors Meeting held on 10 th of September, Mr. R. Rameshwaran, former Deputy General Manager of Palmyrah Development Board has been subjected to compulsory leave in order to conduct a formal disciplinary inquiry against him. | Immediate actions should be taken to finalize the inquiry. |
| (vii) | A sum of Rs. 4,280,600 had been paid to 8 managers as salary increments over the limit approved by the Scheme of Recruitment by the board. | Ministry inquiry committee had suggested to recovery from the respected managers. However, Managers appealed to line ministry Secretary and appeal committee also recommended as Ministry inquiry committee decisions. However, we are waiting for the proper instructions from the present Ministry Secretary. | Immediate actions should be taken to recover the over payments. |
| (viii) | 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. | Ministry inquiry committee had suggested to recovery from the respected managers. However, Managers appealed to line ministry Secretary and appeal committee also recommended as Ministry inquiry committee decisions. However, we are waiting for the proper instructions from the present Ministry Secretary. | Immediate actions should be taken to recover the over payments. |