

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palmyrah Development Board (“Board”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 the Board as at 31 December 2023, 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 Board'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 Audit Observations on the preparation of 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 |
|-------|---|--|---|
| (i) | As per Paragraph 27(b) of SLPSAS 02, a reduction in receivables during the period should increase cash flows from operating activities under the indirect method. However, the decrease in trade receivables amounting to Rs. 3,871,611 during the year under review has been deducted in the cash flow statement. | The management will correct and take steps to prevent such mistakes in the future. | Action should be taken comply with Sri Lanka Public Sector Accounting Standard. |
| (ii) | The overstatement of work-in-progress for the Weerawala building, amounting to Rs.1,504,555 in the previous year's financial statements, had been corrected in the statement of changes in equity for the year under review without being adjusted retrospectively, as required by SLPSAS 03. Furthermore, the corrected amount of Rs.1,504,555 was incorrectly deducted in the Cash Flow Statement under Investment Activities for the year under review, even though no actual cash outflow was associated with this adjustment, as it was a non-cash correction. | The management will ensure such mistakes do not occur in the future. | - do - |
| (iii) | The cost of production accessories amounting to Rs. 119,098,441 had been shown under property, plant equipment without grouping of assets of a similar nature or function in an entity's operations according to Paragraph 50 of the SLPSAS 07. | The category of production accessories will be corrected under relevant category in the 2024 financial statements in accordance with the SLPSAS. | - do - |
| (iv) | According to Paragraph 71 of SLPSAS 07, the useful life of an asset is defined based on the asset's expected utility to the entity. However, the Board depreciated the building over 10 years instead of 20 years, as entities typically estimate a useful life of 15 to 25 years. As a result, the | The management will take the necessary action to reassessment the building and depreciate it over 15 to 25 years, in accordance with the | - do - |

surplus for the year under review was understated by Rs. 3,316,874, and the accumulated depreciation of Rs.74,913,538 as of the end of the year was overstated in the financial statements. SLPSAS.

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|-----|--|---|---|
| (v) | A capital grant amounting to Rs. 23,000,000 and a government grant for a special project amounting to Rs. 6,086,000, received during the year under review, had not been recognized as revenue in accordance with SLPSAS 11. As a result, the surplus for the year under review had been understated by Rs.29,086,000. | The management will ensure that such mistakes do not occur in the future. | Action should be taken comply with Sri Lanka Public Sector Accounting Standard. |
|-----|--|---|---|

1.5.2 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (i) A land which is belonging to the Board and registered at the Registrar's General Department on 24 November 2017 had not been valued and brought to the financial statements. As a result, the value of the non- current assets had been understated in the financial statements. Further, action had not been taken by the board to transfer the ownership of 8 lands which are being used for long period. | The management has already instructed the respective division to Estimate the Land and production building in Karainagar and to include it in to the 2024 financial statements. | All assets belonging to the Board should be valued and accounted. |
| (i) The provision for gratuity had not been made for staff members who have completed less than five years of service. As a result, the profit for the year under review had been overstated by Rs.641,670. Further, the gratuity provision for staff who have completed five years of service had been made only for one year. As a result, the provision for gratuity have been understated by Rs. 2,285,770 in the financial statements. | We agreed to provide the provision for who have completed 5 years according to your guideline. | Provision should be made in the correct way. |
| (ii) The gratuity paid was incorrectly reported as Rs. 6,607,428 in the cash flow from operating activities instead of Rs. 2,077,111. As a result, the cash flow from operating activities had been understated by Rs.4,530,317. | The gratuity payment of Rs. 6,607,428 was mislabeled. The due amount of Rs. 4,530,317 is listed under current liabilities and will be corrected in 2024. | Action should be taken to prepare cash flow statement correctly. |
| (iii) Employee contributions to the Employees' Provident Fund (EPF) for the year under review, amounting to Rs. 8,146,837, had been misclassified under EPF expenditure account. | The 12% employer contribution will be recorded under EPF, while the remaining portion will | Employee contributions to the EPF should be classified |

As a result, salary expenditure was understated be correctly stated under under salary and EPF expenditure was overstated by the salaries. expenditure account. same amount.

1.5.3 Documentary Evidences not made available for Audit

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| Documentary evidence had not been provided to audit to confirmed the existence and accuracy of the balances of Rs.20,712,184. | This matter will be brought to the attention of the Board of Directors and line ministry and necessary actions will be taken promptly based on their suggestions. | All the required evidence for audit should be furnished to audit once they requested. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| Action had not been taken to recover the 08 Sundry debtor balances included under trade receivables aggregating to Rs.4,338,434 remained outstanding for over 06 years as at 31 December 2023. | This matter will be submitted to the Board of Directors, and necessary actions will be taken based on their suggestions. | Remedial actions should be taken to recover dues on time. |

1.6.1 Payables

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| Action had not been taken to settle 05 trade creditor balances totalling Rs. 306,875 and 08 sundry creditor balances totalling Rs. 2,967,592, which remained outstanding for over 2 to 5 years as at 31 December 2023. | Due to a lack of financial allocations, the remaining settlements will be made in parts with the approval of the Board of Directors in the near future. | Appropriate actions should be taken to settle the creditor balances on 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 Regulation of the Democratic Socialist Republic of Sri Lanka ----- | | | |
| (i) FR 177(1) | Although the money collected should be banked as early as possible, the Katpaham Sales Centre in Colombo had a practice of delaying deposits beyond the due dates. It was observed at an audit test check carried out over 02 months that a total of Rs.1,539,930, collected on 49 instances, had been retained for periods ranging from 3 to 8 days before being deposited. | The management will closely monitor the sales deposits of the Katpaham sales centers in the future and will ensure that such mistakes are not repeated. | Action Should be taken to comply with Financial Regulations. |
| (ii) FR 371(2)(b), as amended by Public Finance Circular No. 03/2015 | The Ad-hoc Sub-Imprest aggregating Rs. 1,601,850 had been granted to non-staff grade officers on 76 instances contrary to the Regulations. Further, ad-hoc sub-imprests aggregating Rs. 2,800,000 were granted by the management, exceeding the specified limit of Rs.100,000 in 5 instances, without prior authority being obtained from the General Treasury. | Management will continue to maintain higher oversight on the use of the sub-imprest for essential purposes. In future we will assure to get approval from the Board for the non-staff grades. | Action Should be taken to comply with Financial Regulations. |
| (b) Paragraph 4.2.1 of Procurement Guidelines 2006 of the Government of the Democratic Socialist Republic of Sri Lanka. | The procurement plan for the year under review had not been prepared | Management will adhere to the procurement guidelines and take necessary action to prepare a proper procurement plan in the future to follow the procurement procedures. | Action should be taken to comply with Procurement Guidelines. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.11,954,969 and the corresponding deficit in the preceding year amounted to Rs.24,786,100. Therefore, an improvement amounting to Rs. 12,831,131 of the financial result was observed. The reason for the improvement is the increase in the Local Sales Income.

3. Operational Review

3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| At the inspection of the Kandy Sales Centre, it was observed that the tally system, inactive since August 2023, has caused a complete breakdown in stock management. Furthermore, the sales items from the main office were not updated in the computer system, and internal controls were absent, including a lack of CCTV for security. Unrequested items resulted in expired stock, and three staff members were not adequately monitored. The absence of refrigeration caused perishable items to expire. Additionally, it was observed that there were 15 unrecognized stock items totaling 5,533 units and 21 stock items showing negative values amounting to Rs 1,264,561. | It has been immediately corrected in the TALLY system, and necessary action will be taken to repair the CCTV for protection. Furthermore, management will take immediate action to investigate the unrecognized records and correct the mistakes. | Action should be taken to update the sales items from the main office in the computer system and implement proper internal controls regarding the inventory maintenance. |

3.2 Under –utilization of Funds

| Audit Issue | Management Comment | Recommendation |
|---|--|---|
| It was observed that one Pasteurizer plant valued at Rs.805,000 and one Autoclave plant purchased before 2018 had been idled over five years. | The pasteurizer plant and autoclave have already been corrected and Management has taken the necessary steps to incorporate them into the production procedures. | Action Should be taken to utilize assets effectively. |

3.3 Management of Vehicle fleet

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| The logbooks for 22 vehicles used by the Board for the year 2023 were not submitted for audit. | Management assures you that such mistakes will not be repeated in the future. | Vehicle log books should be submitted for audit. |

4. Accountability and Good Governance

4.1 Submission of Financial Statement

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| <p>The financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the close of the financial year. However, the financial statements of the Board for the year 2023 had been furnished to audit on 28 August 2024 with the delay of 182 days and draft annual report had not been submitted until 28 October 2024. Furthermore, the annual reports of the Board for the years 2021 and 2022 had not been tabled in Parliament.</p> | <p>Submission of financial Statement was delayed due to system implementation & Appointment the new Finance Manager. In future will be submitted in stipulated time. Annual Report for the years 2021 and 2022 has been submitted for ministry approval.</p> | <p>Financial Statements and draft annual report should be submitted on time.</p> |