

Sri Lanka Cashew Corporation 2013

The audit of financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2013, comprising the statement of financial position as at 31 December 2013 and the comprehensive 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 the State Agricultural Corporations Act No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation 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 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 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 Judgment, including the assessment of the risk 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 Corporation'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 Corporation'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 the Section 13 of the Financial 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 opinion.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following non-compliances with Sri Lanka Accounting Standards (LKAS) observed in audit are given below.

- (a) LKAS - 02

- In valuing closing stock cost or net realizable value whichever is lower should be applied. Nevertheless, the stock of finished cashew kernels had been valued with a profit margin of 15 per cent from the selling price without being computed the cost and the net realizable value. Similarly, the value of finished stocks at processing centers had been computed at 90 per cent of the above cost and the semi-finished stock had been valued at 95 per cent of the finished stock.
- (b) LKAS - 16

- (i) The effective date of the revaluation and whether service of an independent valuer had been obtained for the revaluation had not been disclosed in respect of vehicles stated at revalued amount.
 - (ii) The assets representing 41 per cent of the other fixed assets except land and buildings costing Rs. 37,451,944 had been fully depreciated but the Corporation had been using them. Action had not been taken to revalue these assets.
- (c) LKAS - 19

- (i) Provision for gratuity had not been assessed by an Actuary and action had not been taken to identify the actuarial profit or loss.

(ii) Action had not been taken to invest the gratuity fund.

(d) LKAS 39, 32 - Recognition, measurements, presentation and disclosures of
and SLFRS 07 Financial assets and financial liabilities in respect of trade
----- debtors and other receivables, deposits, advances and pre-
payments, cash and cash equivalent, trade creditors and other
payables had not been done in accordance with standards.

(e) LKAS 41 - Biological assets such as cashew trees belonging to the
----- Cashew Corporation had not been accounted at fair value and
disclosed in terms of this standard.

2.2.2 Accounting Deficiencies

Cashew kernels, the selling price of which was Rs. 204,679 had been written off from stock books during the year under review without issue orders. Action had not been taken to issue these stocks by following a proper procedure and to account properly.

2.2.3 Accounts Receivable and Payable

The following matters were observed.

(a) The external debtors balance of Rs.2,003,354 remained outstanding prior to the year 2010 had not been recovered even by 31 December 2013. A sum of Rs. 1,962,800 included therein had been a debtor balance created for the supply of plants to the Ministry of Nation Building in the year 2009. As an effective course of action had not been taken to recover this balance by the end of the year 2010, it had become unrecoverable debt as at 31 December 2013.

(b) Action had not been taken to settle the following Liabilities since several years.

Institute -----	Value -----	Period -----
	Rs.	
Paddy Marketing Board	3,500,000	Since 2005
Subsidies Payable	2,429,612	Since 2010
Crop insurance	719,466	Prior to 2005
Total	<u>6,649,078</u> =====	

2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations -----	Non- compliance -----
I. Inland Revenue Act No. 10 of 2006	Although the Corporation is liable for income tax, action had not been taken to prepare income tax return and to pay income tax for the assessment years 2011/2012 and 2012/2013.
II. Value Added Tax (VAT) Act No. 14 of 2002	A manufacturer of goods who supplies wholesale and retail goods and the annual turnover exceeds Rs. 12 million should register for VAT and pay VAT. Nevertheless, action had not been taken to recover taxes by the Corporation.

- III. Nation Building Tax (NBT) Act No. 9 of 2009 Although the business entities which manufacture goods and its turnover exceeds Rs. 650,000 per quarter is liable for Nation Building tax, the corporation had not taken action to register and pay Nation Building Tax.
- IV. Economic Service Charge (ESC) Act No. 13 of 2006 Although business entities whose turnover exceeds Rs 7.5 million per quarter should pay Economic Service Charge, the Corporation had not taken action to register and pay Economic Service Charge.
- V. Shop and Office Employees Act No. 19 of 1954 (Formalization of service and wages) Although overtime rate per hour had been calculated in terms of Shop and Office Employees Act in paying overtime for employees, the Shop and Office Employees Act had not been applied in calculating the overtime hours for work done.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Corporation had resulted in a surplus of Rs. 966,893 for the year ended 31 December 2013 as compared with the surplus of Rs. 44,233,831 for the preceding year. Accordingly, a decrease of Rs.43,266,938 in the financial results as compared with that of the preceding year was observed. Decline in sales income of cashew plants by Rs. 47,408,875 and increase of expenditure in the Service Division by Rs.16,888,461 had been the main reasons for this deterioration.

3.2 Analytical Financial Review

According to the financial statements presented, the financial results of the Corporation for the year ended 31 December 2013 as compared with that of the year ended 31 December 2012 are given below.

(a) Commercial Division

	Estate and Marketing Division			Commercial Plant Nursery Division		
	2013	2012	Percentage of change increase/ (decrease)	2013	2012	Percentage of change increase/ (decrease)
	Rs.	Rs.		Rs.	Rs.	
Total Income	85,411,920	57,375,124	49	54,307,276	101,947,112	(47)
Total Expenditure	91,462,288	61,367,823	49	20,728,222	36,115,643	(43)
Operating Profit/ (Loss)	(6,050,368)	(3,992,699)	51.5	33,579,054	65,831,469	(49)
Profit margin Percentage	(7)	(6.5)		162	182	

(b) Service Division

	2013	2012	Percentage of change
	Rs.	Rs.	Increase/ (decrease)
Government Grants - Capital	25,044,560	16,890,069	48
- Recurrent	52,500,000	58,580,000	(10)
Profit of the commercial Division	27,528,686	61,838,770	(55)
Interest Income	6,668,908	-	-
Profit from disposal of assets	2,531,823	-	-
Other Income	78,538	1,362,562	(94)

Total Income	114,352,515	138,671,401	(17.5)
Total expenditure of Service Division	113,385,622	94,437,570	20
Profit	966,893	44,233,831	
	=====	=====	

The following observations are made in this regard.

- (a) The operating loss of the Estates and Marketing Division had increased by 51.5 per cent as compared with that of 2012.
- (b) Cost of a seed cashew plant and a budded cashew plant in the year under review amounted to Rs. 27.50 and Rs.39 respectively, and the selling prices were Rs.100 and Rs.200 respectively. As a result a high profit margin of 162 per cent had been reached by the commercial plant nursery.
- (c) Although the income from sale of cashew plants had drastically increased since 2011 due to issue of cashew plants to Divineguma program, the cashew plant income had dropped by 47 per cent in the year under review as compared with that of the year 2012.
- (d) The cost of production in the processing centers had increased by 219 per cent as compared with that of 2012. Increase of cashew kernels production and the purchase of about 7000 Kg of cashew kernels valued at Rs.12,891,411 from an external party had been the reasons thereon.

3.2.1 Financial Structure

According to the financial statement, the financial structure of the corporation as at 31 December 2013 is given below as compared with that as at 31 December 2012.

Resources	As at 31 December			
	2013	Percentage	2012	Percentage
	Rs		Rs	
Capital	40,000,000	15	40,000,000	17
Government grants capital	58,744,656	23	34,959,185	15
Grants from other institutions	19,691,010	08	17,910,572	08
Capital Reserve	22,241,383	09	23,676,376	10
Long term liabilities	37,131,463	14	37,784,779	16
Profit/ Loss Brought forward	81,339,297	31	77,787,907	34
	259,147,809	100	232,118,819	100
Utilization				
Fixed Assets	64,131,331	25	64,986,142	28
Expenditure on Plantation Lands	60,373,028	23	52,309,024	22
Net current Assets	134,643,450	52	114,823,653	50
	259,147,809	100	232,118,819	100

As compared with the previous year, government capital grants had increased by 8 per cent.

4. Operating Review

4.1 Performance

(a) Particulars of production in the cashew estates belonging to the corporation and the cost of production are given below.

Estate	Production of cashew nuts	Cost of production	Cost per Kg	Matured cashew areas	Immatured cashew areas	Age Levels	
						Matured	Immatured
	Kg	Rs.	Rs.	Hectares	Hectares	Years	Years
Puttalam	15,882	9,437,857	594	191.04	110.3	More than 30	Less than 05
Kamandaluwa	28,542	7,728,507	271	129	37	More than 30	Less than 05
Eluwankulama	18,730	5,371,016	287	72.5	10.5	More than 11	Less than 05
Hardy	4,238	1,495,051	353	70.85	10.12	More than 30	Less than 05
Nalanda	2,782	1,082,281	389	20.24	8.1	More than 10	Less than 05
Vilachchiya	483	185,210	383	-	7.29	-	Less than 05
Mahaoya	196.7	-	-	-	10.12	-	Less than 05
Mirijjawila	112.6	-	-	-	40.49	-	Less than 05
Total	70,966.3			483.63	233.92		

The following observations are made in this regard.

- (i) Out of 484 hectares of fruitful lands belonging to the Corporation, 391 hectares or 81 per cent had passed more than 30 years of effective life time.
- (ii) The market price per 01 Kg of cashew kernels was about Rs. 225, but the cost of production per 01 Kg of cashew kernels at Puttalam, Kamandaluwa, Eluwankulama, Hardy, Nalanda and Mahavilachchiya estates had been over the market price.

(b) Subsidy Scheme

The matters observed in audit carried out on the implementation of Cashew subsidy Scheme in Kurunegala and Puttalam Districts are given below.

Year	District	Number of Farmers	Number of acreage	Number of Plants given	Number of succeeded cashew plants observed in 2013	Progress (As a percentage of Number of plants given)
2010	Puttalam	372	564	45,120	8,914	22.8
	Kurunegala	508	600	48,000	12,352	
2011	Puttalam	314	600	48,000	11,905	28.7
	Kurunegala	383	500	40,000	13,362	

It was observed that out of the plants distributed among farmers under the subsidy Programme the number of plants successfully grown had been at low level as 22.8 percent and 28.7 percent in the years 2010 and 2011 respectively.

4.2 Management Inefficiencies

Matters observed were as follows.

- (a) The following estates had incurred operating losses due to increase of direct and administrative expenditure as compared with the total income in the year under review.

Estate	Income	Cost of production	Operating loss
	Rs.	Rs.	Rs.
Puttalam Estate	4,259,421	9,459,727	5,200,306
Kamandaluwa Estate	7,845,919	8,233,640	387,721
Eluwankulama Estate	4,680,723	5,422,046	741,323
Nalanda Estate	859,106	1,286,266	427,160
Hardy Estate	1,534,199	1,875,950	341,751
Total			7,098,261

- (b) The income of the wine manufacturing project commenced recently by the Corporation was Rs.234,150 whereas the expenditure was Rs.288,958 and as such the operating loss amounted to Rs. 54,808.

4.3 Personnel Administration

One vacancy had existed in the higher managerial posts of the corporation and out of the approved cadre there were 37 vacancies consisting of 24 in executive and non – executive grades and 12 minor employee grades.

5. Accountability and Good Governance

5.1 Tabling the Annual Reports in Parliament

The annual report for the year 2012 had not been tabled in Parliament even by 31 March 2014.

5.2 Unresolved audit paragraph

The issue on transfer of legal ownership of the cashew lands, of which the Corporation did not have the ownership which had been discussed at the meeting of the Committee on Public Enterprises met on 24 July 2012 had not been resolved even by 31 March 2014.

6. Systems and Controls

Deficiencies 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.

- (a) Taking over of returned Cashew
- (b) Storing Cashew Stock
- (c) Issue of Cashew free of Charge
- (d) Allowing dry weight for cashew and standard wastage.