

PALMYRAH DEVELOPMENT BOARD 2010

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that, the Palmyrah Development Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the Financial Statements of the matters referred to in Paragraph 1.2 of this report, the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Palmyrah Development Board as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards (SLAS)

The following observations are made.

- a) The book value of the fixed assets, which had become Zero value and continued to be used had not been revalued and shown in the accounts in terms of the SLAS No. 18.

- b) The Board had purchased seedlings for Rs.2,497,250 during the year under review. However, the seedlings have not been biologically examined with a view to eliminate and written off to the Profit & Loss account in terms of SLAS No. 32.

- c) Although the Palmyrah Development Board engaged in production activities, break up of stocks had not been valued separately in terms of SLAS No. 05.

1.2.2 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) Rates and taxes payable to the Municipal Council, Jaffna for the year under review had not been ascertained and brought to accounts.
- (b) A sum of Rs. 61,420 being deposit made by the Palmyrah Development Board to the University of Jaffna had not been brought to accounts.
- (c) Revenue and expenditure of the Thikum Distillery project had not been determined and separately disclosed in the Financial Statements.
- (d) Rental income of Rs. 2,340,000 had not been separately brought to accounts, instead this amount had been set off against rental expenditure, resulting in understatement of rental income as well as rental expenditure.
- (e) Bank charges of Rs.146, 818 had not been brought to the accounts.

1.2.3 Inappropriate Disclosures in the Financial Statements

The Following inappropriate disclosures were observed in the Financial Statements.

- (a) Damaged and Non – moving stocks valued at Rs. 480,199 had been included in the value of stocks shown in the accounts.
- (b) Building of the Industrial complex at Karainagar costing Rs. 2,787,681 and fibre centre-Delft costing Rs. 1,131,225 had been capitalized to Buildings account. However, the ownership of the lands were not belonging to the Board.

- (c) Research and Development expenditure and other operating expenses aggregating Rs. 1,096,661 had been treated as recurrent expenditure in full instead of allocating for a specified period and written off accordingly.
- (d) Capital expenditure valued at Rs. 13,836,894 incurred in extension had been treated as recurrent expenditure.
- (e) 632 damaged Inventory items had been included in the fixed assets shown in the Financial Statements.

1.2.4 Accounts Receivable and Payable

The following observations are made.

- a) Confirmations had not been obtained from the debtors and creditors aggregating Rs. 2,716,936 and Rs. 6,140,961 respectively. Further, no action had been taken to recover or settle them in time.
- b) Staff Loans and Advances aggregating Rs.51, 240 had been outstanding for last several years and follow up action had not been taken in this regard.
- c) A sum of Rs.53, 730 due from a member of the Board, who resigned from the post during the year 2008, had not been recovered up to 30 June 2011.
- d) A rent deposit of Rs.75, 000 made in respect of a building at Ratmalana had not been recovered although the building had been vacated in 1999. The recovery of this appears to be doubtful.
- e) A portion of Colombo office building had been sublet to the then Ministry of Social Services. But, the arrears of rent amounting to Rs. 1,220,000 had not been recovered from the relevant party up to 30 June 2011.

1.2.5 Lack of evidence for Audit

Twenty nine items in the accounts aggregating Rs.98,855,051 could not be satisfactorily vouched in audit due to non-availability of confirmations, fixed assets register, physical verification reports, register pertaining to Computers and accessories, rent agreements , age analysis, detailed schedules etc.

1.2.6 Non -Compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliance with the following Laws, Rules, Regulations and Management decisions observed in audit are given below.

(a) Acts:

- i) Sections 11(b), 12, 13(5), 13(5) (b) and 14(3) of the Finance Act No 38 of 1971
- ii) Payment of Gratuity Act No.12 of 1983
- iii) Section 153 of the Inland Revenue Act No.10 of 2006
- iv) Nation Building Tax Act No. 09 of 2009.

(b) Financial Regulations:

Nos.71(b), 110, 135, 138, 139, 177, 321(2)(c), 751, 756, 846 and 959

(c) Establishments Code of the Democratic Socialist Republic of Sri Lanka:

- (i) Sections 03 and 10 of Chapter VIII
- (ii) Section 03 of Chapter XIV

(d) Sri Lanka Accounting Standards (SLAS):

Nos.03, 05, 16, 18 and 32

(e) Circulars:

- i) Department of Public Enterprises Circular No.PED/12 of 02 June 2003
- ii) Value Added Tax (VAT) Circular No.03 of 18 January 2007.

2. Financial and Operating Review

2:1 Financial Results

According to the Financial Statements presented, the working of the Board for the year under review had resulted in a net loss of Rs.14,415,133 after taking into account the Government grants of Rs.53,500,000 for recurrent expenditure as compared with the corresponding net loss of Rs.9,644,685 for the preceding year after taking into account the Government grant of Rs.53,000,000 for that year, thus indicating a further deterioration of Rs.4,770,448 in the financial results.

Increase of expenditure relating to personal emoluments, contractual services and supplies and consumables by Rs. 3,327,797 Rs. 1,621,429 and Rs. 6,038,112 respectively during the year under review were attributed for the increase of the net loss.

2.2 Operating Review

The Following observations are made

- (i) Out of the total expenditure of Rs. 88,603,343 for the year under review, expenditure on personal emoluments was Rs. 55,646,843 which represented 63% of the total expenditure.
- (ii) Expenditure incurred on the Development of Palmyrah Industry and Palmyrah resources which are the main objective of the Board aggregated Rs.2, 497,251. This represents only 3% of the total expenditure for the year under review.

- (iii) Out of the sum of Rs. 30,000,000 received as grant for capital expenditure from the Treasury for the year under review, a sum of Rs. 14,415,132 had been utilized for the recurrent expenditure without proper authority.
- (iv) Although the turnover for the year under review had shown an increase of Rs. 6,326,174 the operating expenditure had increased by Rs. 11,527,539, resulting the net loss for the year had increased by Rs. 4,770,448. It appears that the Board had failed to obtain any benefits from the increase of sales.
- (v) A sum of Rs.2, 497,250 had been incurred on Plantation of seeds for the year under review. However, no progress reports or any statistical information were made available to ascertain the number of seeds purchased, planted and distributed.
- (vi) Most of the production centers and sales centers had recorded losses year by year. It appears that the income generated had not been adequate to meet the overhead expenses. Net losses for the year ended 31 December 2010 as compared with that of the preceding year are given below.

<u>Details</u>	<u>Net Loss of the Production and Sales</u>	
	<u>Centers</u>	
	<u>2010</u>	<u>2009</u>
	<u>Rs.</u>	<u>Rs.</u>
Production Centers	8,726,679	6,731,057
Sales Centers - Katpakam	3,940,488	4,149,551
Sales Centre – Stores	3,636,383	3,087,346
Farms	2,399,238	2,973,161

- (vii) According to the financial statements presented the model farms had been running at losses of Rs. 312,968 during the year under review as compared with that of Rs. 246,565 for the preceding year as per details given below.

<u>Name of model farm</u>	<u>Turn over</u>	<u>Cost of Sales</u>	<u>Gross Loss</u>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Weerawela	166,973	282,023	115,050
Delft	Nil	5,000	5,000
Kudattanai	Nil	84,739	84,739
Naravelikulam	Nil	99,559	99,559
Puliyamkulam	Nil	Nil	8,620

			312,968
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2.3 Financial Management

The Following observations are made

- a) Although a sum of Rs.5, 340,000 had been paid as rent for the 3rd floor of the office building in Colombo, it was not utilized for the purpose of the Board for last 23 months.
- b) The Board had sublet a portion of the building in Colombo to a private hotel and private shop. Electricity and water charges amounting to Rs.890,809 and Rs. 29,490 respectively of the private hotel and shop had been paid from the funds of the Board. The agreement entered into with the private hotel and private shop had not contained a provision for the recovery of these charges.
- c) An expenditure of Rs. 72,390,304 had been incurred during the year under review as administration cost of the Board. However, the turnover was only Rs.20, 010,333. It was observed that the activities of the Board had not been efficiently and effectively carried out throughout the year.

2.4 Assets management

The Following observations are made.

- (a) A building constructed for the Palmyrah Research Institute at Kaithady at a cost of Rs.3, 082,831 had remained idle for last 21 years and presently the building appears in a damaged condition.
- (b) Value of fixed assets and the laboratory equipment donated by the United Nation Development Programme had not been valued and brought to accounts. These assets had been lying idle for last twelve years.
- (c) A water pump, an electric motor, nine typewriters, two grinding machines, five units of food extruder and a refractory meter machine had remained idle in the main stores at Jaffna for a considerable period.

2.5 Utilization of Vehicles

The following observations are made.

- a) The Board had owned 20 vehicles in its fleet during the year review. Monthly performance summaries of those vehicles had not been furnished to audit in terms of Financial Regulation No. 1646
- b) A sum of Rs. 845,953 had been spent on fuel, repairs and maintenance of vehicles. No log books had been maintained to record the repairs to Vehicles.
- c) Purpose of trip, time spent, fuel position, capacity of the tank, initial of driver etc had not been indicated in the running charts.
- d) Daily Running charts had not been properly maintained. In that, mileage performed, and initial of officer who used the vehicles had not been recorded in the running charts
- e) Fuel for the vehicles had not been obtained on fuel order books, instead the expenditure incurred by the drivers have been reimbursed.

2.6 Delays in Implementation of Projects

The Following observations are made.

- a) Mobilization advance of Rs. 2,500,000 had been paid to two contractors during the years 2003 and 2004 for the construction of Building for industrial complex at Karainagar. However the works had not been commenced even up to 30 April 2011. In this regard the Chairman had informed me that they have not allocated any fund to continue this Project.

- b) Out of the sum of Rs. 5,000,000 allocated under the “Mahinda Chinthana” Crash programme a sum of Rs. 500,000 had been spent for the Establishment of Palmyrah Arrack, Distilling and Toddy Bottling plant in the Mannar District. However, the above works had not been commenced even up to 30 April 2011.

2.7 Budgetary Control

Significant variances were observed between the budget and the actual of income and expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Control

Observations made in systems and controls during the course of audit were brought to the notice of the Chairman of the Board by my detailed report issued in terms of Section 13 (7) (a) of Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Human Resources Management

- (b) Utilization of Funds

- (c) Accounting

- (d) Budget

- (e) Assets Management
Utilization of vehicles