

Sri Lanka Cashew Corporation – 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 Sri Lanka Cashew Corporation 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 Sri Lanka Cashew Corporation 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 Non-compliance with Sri Lanka Accounting Standards (S.L.A.S.)

Non-compliance with the following Sri Lanka Accounting Standards were observed during the course of audit.

Reference to SLAS -----	Particulars -----
(a) SLAS 3	Even though the accounts should be signed after stating the declaration on the responsibility for the preparation of financial statements, it had not been so stated in the accounts.
(b) SLAS 16	Even though the gratuity should be provided for employees who have completed one year of service, it had not been so done.

- (c) SLAS 18 Even though the lands had been revalued at Rs.4,452, 241,129, the matters to be disclosed in the accounts in that connection had not been disclosed.
- (d) SLAS 24
- (i) Grants received from other parties totalling Rs.5,870,075 brought forward over long periods, assets received or the development works constructed had not been identified and brought to account.
 - (ii) The accounting policy adopted for the accounting of Government contributions and Government Grants and the other disclosures including the accounting systems adopted for presenting the financial statements had not been disclosed.
 - (iii) Even though a sum equivalent to the depreciation percentage on the depreciation on assets constructed out of capital grants should be recognized annually as income and brought to account only a sum of Rs.2,462,643 had been recognized as the amortization on the capital grants amounting to Rs.257,602,107.

1:2:2 Accounting Deficiencies

1:2:2:1 Overstatements in the Accounts

- (i) Out of the sum of Rs.38,100,000 received as capital grants, a sum of Rs.7,987,334 had been treated as recurrent grants and brought to account as revenue receipts and as such as income for the year under review had been overstated by that amount. Nevertheless, an accounting policy on the specific identification of the revenue or capital expenditure had not been included in the financial statements.

- (ii) Even though a sum of Rs.46,515,043 had been shown in the accounts as the assets (excluding lands) of the Kondachchi Estate, most of those assets did not exist physically. As such the value of the assets shown in the balance sheet as at the last date of the year under review had not been shown accurately.

1:2:3 Accounts Receivable and Payable

1:2:3:1 Accounts Receivable

An age analysis of the external debtors amounting to Rs.2,022,372 had not been furnished. Action had not been taken for the recovery of the debtors balances of the Kamandaluwa Estate and the Extension Division totalling Rs.12,829 lapsed for over 06 years.

1:2:4 Lack of Evidence for Audit

The debtors and creditors for the years under review amounted to Rs.11,054,122 and Rs.9,364,490 respectively and the confirmation of balances thereon had not been obtained. The relevant registers had not been maintained as well. An age analysis of the creditors had not been furnished.

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions. -----	Non – compliance -----
(a) Financial Regulations of the Government of Sri Lanka (i) Financial Regulation 757(2)	The Board of Survey Reports for the year under review had not been furnished to audit.

(ii) Financial Regulation 1646

The Daily Running Charts and Monthly Performance Summaries in respect of 21 motor vehicles had not been furnished to the Auditor General.

(b) Circulars

 (i) Notification on the Establishment of Sri Lanka Cashew Corporation published in the Gazette Extraordinary dated 25 May 1973 and the Management Services Circular No. 39 of 26 May 2009

Even though there was no provision for the post of Vice Chairman, the Minister in charge of the subject had appointed a Vice Chairman and a sum of Rs.255,999 had been paid as salary and allowances during the year under review. In addition to this payment a motor vehicle with a driver had been allocated to the Vice Chairman. The Corporation had paid a fuel allowance to him and settled his telephone bills as well.

(ii) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 8.3.4

The Chairman of the Corporation had been paid a telephone allowance of Rs.81,859 in the year under review at Rs.11,694 per mensem contrary to the provisions of the circular.

(iii) Public Enterprises Circular No. PED/28 of 31 January 2005

An agreement prepared according to the instructions of the Director General of Public Enterprises was not available for the motor vehicles procured on hire basis.

(iv) Procurement Guidelines No.8 of 25 January 2006 Section 3.2

Even though a sum of Rs.909,015 had been spent on the construction of the Cashew Sales Stall, Mirijjawila, quotations had not been called for in that connection.

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| (v) Letter No. PE/CO/MC/27/2
Vol. iii dated 19 November
2008 of the Department of
Public Enterprises. | Even though it was informed that a transport allowance cannot be paid to the staff of the Corporation, transport allowances at the rate of Rs.1,500 and Rs.5,000 per mensum had been paid to the officers contravening the instructions. |
| (vi) Establishments Code Chapter
viii Section 10.2 | If the holiday pay is obtained for working on weekends and public holidays, the prior approval should be obtained. But it had not been so done. |

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements presented, the working of the Corporation for the year ended 31 December 2010 had resulted in a deficit of Rs.15,055,181 as compared with the corresponding deficit of Rs.11,759,352 for the preceding years. Accordingly, the deficit for the year under review as compared with the preceding year, had increased by Rs.3,295,829. The increase in the expenditure on nurseries and the Head Office by Rs.3.2 million and Rs.4.3 million respectively had been the reasons for that increase

2:2 Operating Review

2:2:1 Performance

The following observations are made.

- (a) Even though the maximum effective life of the cashew tree is 30 years, the effective life of trees in all estates other than the Eluwankulama Estates had expired.

- (b) The estates belonging to the Corporation and particulars of their crops are given below.

Estate	Total Crop	Acreage	Average Crop per Acre
-----	-----	-----	-----
	Kilogrammes		Kilogrammes
Puttalam Estate	20,080	143	140
Kamandaluwa Estate	15,790	368	42
Hardy Estate	3,517	200	17.6
Eluwankulama Estate	55,000	200	275
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	94,387	911	103.6
	=====	=====	=====

The average crop per acre of the cultivation is 103.6 kilogrammes per acre while the crop per acre in the private sector is 600 kilogrammes. The crop per acre in the other countries in the region is about 2,000 kilogrammes.

- (c) The standard rates and norms had not been established to determine whether the loss of weight and waste resulting from the production of cashew kernels from the cashew nuts remain at the standard levels.
- (d) The expenditure incurred on the extension of cashew cultivation and the Research and Development Division in the past 06 years is given below.

Year	Extension Expenditure	Research and Development Expenditure
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	Rs. Millions	Rs. Millions
2005	5.6	23.1
2006	5.1	33.1
2007	5.7	38.6
2008	5.5	50.3
2009	5.1	55.6
2010	5.2	49.6

2:2:2 Management Inefficiencies

- (a) A sum of Rs.28,102 had been paid as a surcharge on the delay in the remittance of contributions to the Employees' Provident Fund.
- (b) Action had not been taken to transfer the ownership of the motor vehicle No. WPJY 8403 handed over to the Sri Lanka Cashew Corporation by a Project to the Corporation.

2:2:3 Budgetary Control

A budget for the year under review had not been prepared in terms of Section 8.3 of the Finance Act No. 38 of 1971 and Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

2:2:4 Human Resources Management

The following observations are made.

- i. There were 11 vacancies in the Management and Executive Grade posts of the Corporation while 10 vacancies existed in the non-executive grades as well.
- ii. Despite the existence of vacancies in 37 posts as at the end of the year under review 56 employees had been recruited on the casual and contract basis and 49 employees exceeding the approved cadre had been employed. The salaries and allowances paid to those employees in the year 2010 amounted to Rs.2,647,440.

3. Systems and Controls

Deficiencies in systems and controls 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) Accounting
- (b) Stores Control
- (c) Human Resources Management
- (d) Issue of Goods to Sales Stalls
- (e) Maintenance of Records of Valuable Trees and Replanting
- (f) Defective Computer System