

Paddy Marketing Board – 2013

The audit of financial statements of the Paddy Marketing Board 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 30 of the Paddy Marketing Board Act, No. 14 of 1971. The Report of the Auditor General on the transactions of the Board was issued to the Chairman of the Board on 12 February 2016 due to delay in presenting the financial statements for the year ended 31 December 2013. My comments and observations which I consider should be published with the Annual Report of the Board 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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, the comprehensive income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Non-compliances with Sri Lanka Accounting Standard 7 are given below.

- (a) Even though purchases of properties, plant and equipment during the year under review amounted to Rs.2,771,794, it had been shown as Rs.148,983,194 in the Cash Flow Statement and as such, cash outflow had been overstated by Rs.146,211,400.
- (b) Even though the value of the amount paid in cash for work-in-progress of the year under review, which should be indicated under investment activities amounted to Rs.77,866,128, it had been shown **in the Cash Flow Statement** as cash inflow amounting to Rs.68,124,139 under working capital changes of operating activities.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.36,227,544 paid for incomplete works of construction of stores at Yodha Kandiya, Wellawaya and Meethotamulla during the year under review should be shown as work-in-progress in the financial statements, that value had been capitalized under buildings.
- (b) Mobilization advances amounting to Rs.6,852,585 paid in the year 2012 for the rehabilitation and development of the Meethotamulla stores, had been capitalized in the year 2012. As such, lands and buildings had been overstated in the accounts by the said amount and the depreciation by Rs.171,314 in the year under review.
- (c) Even though the loan balance that should be settled to the Co-operative Fund as at 31 December 2013 amounted to Rs.90,000,000, it had been shown as Rs.454,000,000 in the financial statements, thus overstating by Rs.364,000,000.
- (d) Even though the sum of Rs.400,000,000 paid to the Co-operative Fund in the year under review by the Co-operative Wholesale Establishment for the settling of loans obtained from the Co-operative Development Fund by the Board, should be debited to the payable Co-operative Funds Account and credited to the receivable Co-operative Wholesale Establishment Account, action had not been so taken.
- (e) The interest amounting to Rs.58,749,164 payable for the year under review for loans obtained from the Co-operative Development Fund for the purchase of paddy, had not been brought to account.
- (f) Even though the purchasing value of stocks of paddy in the year under review amounted to Rs.7,724,805,122, it had been brought to account as Rs.7,755,264,523 and as such, the closing stock had been overstated by Rs.30,459,401.

- (g) In the selling of stocks of rice belonging to the Board, which were stored in the stores of the Department of Food and in issuing of paddy to that Department for processing of rice, a loss of Rs.478,533,035 had been sustained by the Board. However, that loss receivable from the Department of Food had been shown as Rs.440,545,635 in the financial statements, that is, understated by Rs.37,987,400.
- (h) A sum of Rs.35,395,226 which were deposited directly in the Banks in the years 2012 and 2013 had been brought to account as sundry creditors without identifying them.

2.2.3 Lack of Evidence for Audit

The following items of accounts could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against each item.

| Item of Accounts ----- | Value ----- Rs. | Evidence not made available ----- |
|---------------------------|-----------------------|---|
| Fixed Assets | 411,967,722 | Registers of Fixed Assets and Title Deeds Stock Books and Stock Verification Reports |
| Stocks in Transit | 54,385,222 | |
| Stocks of Soya Beans | 3,302,853 | |
| Stock of Rice | 84,972 | |

2.2.4 Unexplained Differences

A difference of Rs.156,381 was observed between the balance of the **Purchasing Control Account** shown in the financial statements and balance of the Ledger Account.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though the stocks of rice valued at Rs.10,591,828 relating to 312,968 kg of Kekulu and Nadu paddy purchased in the Yala Season – 2008, had been handed over to the Department of Food in the year 2011, that money had not been recovered even by the end of the year review.
- (b) A sum of Rs.79,928,013 recoverable as at 31 December 2013 for rice sold to the Lanka Sathosa Ltd. in the years 2010 and 2011 had not been recovered even by 30 September 2016.
- (c) Due quantities of rice relating to 41,118.38 Metric Tons of paddy issued to 81 millers in the year 2012 for the processing of rice for exporting and donation, had not been received and after all deductions, a sum of Rs.219,848,491 had to be further recovered from 50 millers as at 31 December 2014. However, legal action had not been taken even by 30 September 2016 to recover this money.

- (d) Advances amounting to Rs.2,421,271 paid to the Road Development Authority, Southern Province for laying tar and preparing the access road and the land of the paddy stores at Weeraketiya in the year 2011 and advances amounting to Rs.9,000,000 and Rs.1,000,000 paid respectively to the Department of Cooperative Development and Lanka Sathosa Ltd. for the transportation of stocks of paddy purchased in the year 2010, was being brought forward as **unsettled advances** even by the end of the year under review.
- (e) Sums of Rs.348,537,877 as at the end of the year under review and Rs.189,229,114 as at the end of the year 2014 were recoverable from the Ministry for 9,588,045 kg of paddy provided by the Board for the activities on export of rice carried out by the Ministry of Co-operative and Internal Trade together with the Co-operative Wholesale Establishment in the year under review.
- (f) Out of the sum of Rs.1,873,786,500 credited to the bank account of the Ministry of Co-operative and Internal Trade by the millers for purchase of paddy in November and December 2013, a sum of Rs.272,688,409 was recoverable by 31 December 2014.
- (g) The loan balance totalling Rs.210,000,000 obtained from the District Secretary, Ampara and Lanka Sathosa Ltd. for purchase of paddy in the Yala Season – 2013 and the loan balance of Rs.30,000,000 obtained from the District Secretary, Trincomalee for purchase of paddy in the Maha Season - 2012/13 and the Yala Season - 2013, had not been settled even up to 31 December 2016.
- (h) A quantity of 36,664.36 Metric Tons of paddy had been issued in the year 2012 to 89 millers for processing of rice for the exportation and donation of rice. **Out of these millers, some had not processed and handed over a due amount of rice and some had processed exceeding the due amount and handed over to the Board.** A sum of Rs.67,077,734 had to be paid to 80 millers as at the end of the year under review after adjusting values receivable and payable and it had been Rs.8,160,892 as at 31 December 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating loss of the Board for the year under review had been Rs.1,036,227,966 as compared with the corresponding operating loss of Rs.1,996,230,035 for the preceding year, thus indicating a decrease of Rs.960,002,069 in the loss of the year under review as compared with the preceding year. The increase in the income by Rs.4,260,988,325 and the decrease in the expenditure on sales and distribution by Rs.8,809,862 as compared with the preceding year, had been the main reason for the above decrease in the loss.

An analysis of financial results of the year under review and 02 preceding years revealed deterioration in the financial result by 857 per cent in the year 2012 as compared with the year 2011 and the financial result of the year 2013 had improved by 48 per cent as compared with the year 2012. Taking into consideration the employees' remuneration and depreciation on the non-current assets, the negative contribution of the Board which was Rs.1,960,018,396 in the year 2012 had decreased to Rs.994,488,974 representing 49 per cent by the year 2013.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) The loss totalling Rs.715,281,909 occurred due to accounting the sales value decided by the Board without considering a price agreed by the Establishment and the Board in the issue of paddy to the Co-operative Wholesale Establishment and payment of a low price by the Establishment than a price decided by the Board from the year 2011 to the year 2013, had been written off against the profit in the year under review. As such, the loss of the year had been overstated by the similar amount.
- (b) The stocks of rice and paddy valued at Rs.1,375,411,181 provided by the Board to the Department of Food in the years 2011 and 2012 had been sold at a low price. As such, only a sum of Rs.897,746,146 had been received to the Board and the loss of Rs.477,665,035 caused by selling this rice had been shown in the accounts as receivables from the Department of Food Commissioner instead of eliminating from accounts.

4.2 Operating Activities

Information in the Bank statements in respect of sums of Rs.49,743,530 and Rs.73,829,883 paid to the farmers from the Bank for stocks of paddy purchased by the Board in the year 2010 and the year under review, had not been compared properly with the information sent from zones and those values had been brought to account as unidentified purchases under current assets.

4.3 Unidentified Losses

The Board had issued 9,588,045 kg of Nadu paddy at a rate of Rs.32 per 01 kg for exporting of rice in the year 2013 carried out by the Ministry of Co-operatives and Internal Trade together with the Co-operative Wholesale Establishment. The purchase price of this 1 kg of paddy amounted to Rs.32 and after adjusting all other expenses, that price amounted to Rs.38.47. Accordingly, when issuing these paddy, a loss of Rs.6.47 per 01 kg of paddy had occurred and thus indicating an entire loss of Rs.62,034,651.

5. Accountability and Good Governance

Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to Audit within 60 days after the close of the financial year. Nevertheless, the financial statements for the year 2013 had been presented only on 05 August 2016.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

| Areas of Systems and Controls ----- | Observations ----- |
|---|--|
| (a) Motor Vehicles Control | Non- maintenance of Running Charts and Log Entry Books in the updated manner. |
| (b) Contract Control | Taking action deviating from the Procurement Procedure. |
| (c) Stores Control | (i) Failure in storing paddy in the stores with a proper Standard. (ii) Failure to rectify the shortcomings in the stores. (iii) Failure to issue instructions on stores control. |
| (d) Stock Control | (i) Failure in conducting annual stock verification. (ii) Non-maintenance of Stock Books properly. |