

Palmyrah Development Board - 2013

The audit of financial statements of the Palmyrah Development Board for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and 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 44 of the Coconut Development Act, No. 46 of 1971 and Section 13(1) of the Finance Act, No. 38 of 1971. 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 Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statement 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 judgement, 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 consider internal control relevant to the Board'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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub- sections (3) and (4) of Section 13 of the Finance 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 audit opinion.

1.4 Basis for qualified Opinion

My opinion is qualified based 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 Palmyrah Development Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- a) Research Programme cost should be recognized as intangible assets. However, the total cost of Rs. 56,571,669 incurred for the research programme had been capitalized as other financial assets. Further, the amortization policy, amortization period, accounting treatment for this cost had not been defined.
- b) The cost of the 08 Non Current Assets totalled to Rs. 6,263,747 had become the zero book value continued to be used those assets without being revalued and brought to the financial statements.
- c) Although the ownership of Land and Buildings was not belongs to the Board, the cost of buildings and fittings valued at Rs. 10,414,935, building of Industrial complex at Karainagar costing of Rs. 4,877,409 and fibre centre at Delft costing of Rs. 1,131,225 had been capitalized and a provision for accumulated depreciation of Rs. 6,943,241 had been made to the capitalized assets during the year under review.
- d) Even though Palmyrah Seed plantation activities were not successfully carried out the Palmyrah seed plantation cost of Rs. 22,188,353 incurred during the year under review had been capitalized as other financial assets and depreciated at the rate 20 per cent annually.
- e) Provision for depreciation of Model farm at Puliyankulam had been understated by Rs. 94,612.
- f) Depreciation relating to buildings amounting to Rs. 165,603 had been erroneously credited to the Depreciation Reserved vehicle accounts.

2.2.2 Unexplained Differences

The following differences amounted to Rs. 29,262,863 had been observed between the amounts shown in the ledger accounts and financial statements for the year under review.

Items	Amount as per Ledger Accounts	Amount as per Financial Statements	Differences
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	Rs.	Rs.	Rs.
Salaries	46,950,988	47,239,027	288,039
Depreciation (Note-1)	35,846,197	11,661,237	24,184,960
Miscellaneous Income (Note - 2)	<u>3,776,532</u>	<u>8,566,396</u>	<u>4,789,864</u>
			<u>29,262,863</u>

2.2.3 Accounts Receivable

Action had not been taken to recover an advance of Rs. 119,320 receivable from a third party for more than three years.

2.2.4 Lack of Evidences for Audit

The following evidence as indicated against the each item below had not been furnished to audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
Land and buildings	34,603,630	Title deeds
Staff loans and advances	756,065	Loan files and loan register
Rent payments	5,888,012	Valuation reports
Telephone charges	494,539	Register for telephone calls
Fuel expenditure	991,900	Signature of officers travelled, Purpose of trips

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

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

(a) Acts

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- (i) Section 12 and 14(3) of the Finance Act, No.38 of 1971.
 - (ii) Section 6(2) of part II of the Payment of Gratuity Act, No.12 of 1983.

(b) Financial Regulations:

FR 110, 135, 272(3), 350, 371(2)(b), 382, 383, 445, 446, 715, 751(i), 756(3), 756(5),
757(1)(c), 757(2)(a) and (c), 850(i), 1010(b), 1644, 1646 and 1654(b)

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

Section 05 of Chapter XII

(d) Procurement Guidelines 2006

- (i) Guideline 5.3.5 of Chapter 05
(ii) Guideline 2.6.1 of Chapter 02

(e) Circulars

- (i) Public Enterprises Department Circular No.51 of August 2008 and No.58 (2) of 15
September 2011.

(ii) Paragraph 2.4.1 of the Circular No. MP/6/1/96 dated 20 April 1996 of the Ministry of
Finance and Planning.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Board had resulted a deficit of Rs. 12,578,654 for the year under review after taking in to account the Government grant of Rs. 60,000,000 for recurrent expenditure as compared with the corresponding deficit of Rs. 9,763,832 for the preceding year after taking into account the Government grant of Rs. 55,664,000 for that year, thus indicating a further deterioration of Rs. 2,814,822 in the financial results of the Board due to decrease in turnover by Rs. 5 million and increase in distribution and administration cost by Rs. 8.2 million.

3.2 Analytical Financial Review

The total operating expenditure for the year under review was Rs. 102,037,407 and out of this sum of Rs. 54,074,665 had been incurred for the personnel emoluments and it represent 52 percent of the total expenditure.

4. Operating Review

4.1 Performance

(a) Model Farms Running at Loss

The following Six Model Farms had been running at a total loss of Rs. 3,931,593 during the year under review. Details are given below.

Name of the Farm	Total Revenue	Total Operating Expenditure	Personal Emoluments	Percentage of Personal Emoluments on Total Operating Expenditure	Net Loss
	Rs	Rs	Rs	%	Rs
Kudathanai	Nil	462,237	364,750	78	462,237
Mamunai	1,800	573,555	303,357	53	571,755
Delft	Nil	380,044	345,584	90	380,044
Puliyankulam	Nil	700,423	448,431	64	700,423
Urturapuram	Nil	98,203	-	-	98,203
Weeravila	<u>190,515</u>	<u>1,909,446</u>	<u>1,721,121</u>	90	<u>1,718,931</u>
Total	<u>192,315</u>	<u>4,123,908</u>	<u>3,183,243</u>		<u>3,931,593</u>

(b) Idle Models Farms

The following three Models Farms with the total extent of 453 acres had been allowed to idle fully. Details are as follows.

<u>Location of the Farm</u>	<u>Extent of the Land (Acres)</u>
Mamunai	436
Kawtharimunai	10
Ariviyal Nagar	<u>07</u>
Total	<u>453</u>

4.2 Management Inefficiencies

The following observations are made.

- The standard selling prices for the items sold had not been determined by the Board as such the items were sold in various locations at different prices.
- No action had been taken to increase the production capacity of Weeravila Model Farm as the huge demand available at Tissamaharama area for the Handy Craft items produced at Weeravila Model Farm. Further this farm had been purchased those items at Colombo and Batticaloa which leads to high transportation cost.

4.3 Human Resources Management

The following observations were made.

- (a) The Board had recruited certain staff without considering the provision given in the Scheme of Recruitment.
- (b) Adjustments for salary anomalies had not been effected even after Scheme of Recruitment approved.
- (c) The cadre position of the Board as at 31 December 2013 are given below.

<u>Level/Grade</u>	<u>Approved</u> <u>Cadre</u>	<u>Actual</u> <u>Cadre</u>	<u>No. of</u> <u>Vacancies</u>	<u>Excess</u> <u>Staff</u>
Senior Level	02	01	01	--
Tertiary Level	22	17	05	--
Secondary Level	89	70	19	--
Primary Level	<u>111</u>	<u>131</u>	<u>--</u>	<u>20</u>
Total	<u>224</u>	<u>219</u>	<u>25</u>	<u>20</u>

No actions had been taken to obtained the approval for excess cadre and fill the vacancies existed by the end of the year under review.

4.4 Utilization of Vehicles

The following observations are made.

- (a) A sum of Rs. 1,037,790 had been spent for repairs and maintenance of vehicles. However, no log books had been maintained to record the details of repairs in terms of Financial Regulation 1646.
- (b) Purpose of trips relating to 97,791 Km travelled had not been entered in the running charts of five vehicles.
- (c) Signature of the officers utilized four vehicles were not placed in the daily running charts.
- (d) Fuel consumption testing for 05 vehicles had not been done by the Board in terms of Public Administration Circular No. 41/90 dated 19 October 1990.

5. Accountability and Good Governance

5.1 Internal Audit

Even though an internal audit division had been established with one internal auditor no other staff had been appointed for the effective operation of the division.

5.2 Audit and Management Committee

The Board had established an Audit and Management Committee and two Audit and Management Committee meetings had been conducted in the year 2013. However, according to the Public Enterprises Circular No. PED/31 dated 01 July 2005, at least four meetings should be held for a year.

5.3 Budgetary Control

Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control. Some of the major variances observed in audit are described below.

<u>Items</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	
	<u>Amount</u>			
	Rs. '000	Rs. '000	Rs. '000	%
<u>Recurrent Expenditures</u>				
Personal emoluments	71,568	54,074	17,494	24
Travelling expenses	2,310	1,148	1,162	47
Supplies	24,950	18,211	6,739	27
Contractual services	12,189	8,428	3,761	30
<u>Acquisition of Capital Assets</u>				
Vehicle	Nil	47	(47)	100
Furniture and equipments	Nil	494	498	100
Buildings	Nil	8,871	8,871	100
Tools and machineries	Nil	3,118	3,118	100

5.4 Tabling of Annual Report

The Annual Report for the years 2012 had not been tabled in Parliament even up to 22 December 2014 in terms of Section 14(3) of the Finance Act.

6. Systems and Controls

Deficiencies observed 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 the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Receivables
- (c) Utilization of Funds
- (d) Assets Management
- (e) Human Resources Management
- (f) Utilization of Vehicles
- (g) Budgetary control

