

Sri Lanka Cashew Corporation - 2014

The audit of financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, 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 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 risks of material misstatement 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 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. Subsections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Audit 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 Sri Lanka Cashew Corporation as at 31 December 2014 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

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

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| SLAS 01 | The measurement base or bases used for the preparation of financial statements which are important in understanding the financial statements, had not been disclosed. |
| SLAS 02 | Instead of valuing the stock of 47 products relating to cashew by separately computing the cost, the stock had been valued at the average cost of the products. As such the sale price of certain products had been lesser than the cost. |
| SLAS 08 | According to the Standard, material erroneous presentation of comparative values of prior periods should be rectified by restatement. Nevertheless, the overstatement of expenditure of the Nurseries Division by a sum of Rs.996,619 in the year 2013 had been adjusted as retrospective adjustments. |
| SLAS 16 | <ul style="list-style-type: none">(i) The date of operation of the revaluated and whether an undependable value was sniffed had not been disclosed in connection with the motor vehicles stated at the revalued amount.(ii) The accumulated depreciation of property, plant and equipment as at the beginning of the year under review, depreciation relating to the year under review and the depreciation of the assets disposed of had not been disclosed.(iii) According to the Standard, where the fair value of a revalued asset differs materially from the carrying value, a further revaluation is required. Even though motor vehicles had not been revalued after the year 2009, fully depreciated motor vehicles costing Rs.25,600,800 had been further used by the Corporation.(iv) Even though disclosure had been made in the accounting policies that, in cases where the fair value of property, plant and equipment can be positively measured in accordance with the Standard that they would be shown at the revalued amount, the Corporation had been further using |

the fully depreciated property, plant and equipment costing Rs.20,231,977 excluding motor vehicles.

- SLAS 19 Even though all material post – employment benefit liabilities should be measured by a qualified Actuary or by Gratuity Formula System, current employment cost, interest cost, actuarial profit and loss had not been computed for gratuity.
- SLAS 39 Disclosure had not been made whether the recognition, measurement, presentation and disclosure of trade debtors and other receivables, deposits, advances and prepayments, cash and cash equivalent assets and trade creditors and other payables as financial assets and financial liabilities had been done according to the Standard.
- SLAS 41 The biological assets of the Corporation, that is, cashew trees, had not been brought to account and disclosed in accordance with this Standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Instead of recognizing sales on the accrual basis in sale of cashew to the Franchise Stalls, sales had been recognized on the cash basis. Accordingly, the balance of Rs. 460,982 receivable by the end of the year under review had not been brought to account.
- (b) The balance of the Government Grants Account as at the end of the year under review amounted to Rs.78,956,936 and that balance should be equal to the fixed assets acquired from the Government Grants, expenditure on the matured areas and the net value as at the end of the year under review of the expenditure on the non-matured areas. Nevertheless a difference of Rs.37,915,049 was observed.
- (c) According to the financial statements the provision for gratuity and payment of gratuity amounted to Rs.10,009,513 and Rs.1,469,889. But those had been shown as Rs.9,743,212 and Rs.1,203,588 in the cash flow statement.

2.2.3 Lack of Evidence for Audit

The evidence needed to confirm the following amounts had not been furnished to audit.

Item	Values Rs.	Evidence not furnished
Damaged Cashew Seedlings	3,759,120	Verification Reports on 90,658 damaged cashew seedlings
Sale of Cashew Seedlings	894,100	Issue Orders relating to the issue of 8,761 cashew seedlings.

2.2.4 Transaction not supported by Adequate Authority

Even though the Department of Public Enterprises had approved the purchase of a motor car or a double cab motor vehicle costing not more than Rs.8.5 million for the Chairman, disregarding that limit, the Corporation had purchased a Jeep for Rs.9,860,000 in July 2014. It was also observed that the said vehicle imported under a duty concession permit issued to a Public Officer and registered in the name as the first owner and the registration had been transferred to the Corporation as the second owner.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The debtors balance brought forward from prior to the year 2010 amounted to Rs.2,003,354 and out of that a sum of Rs.1,962,800 represented a debtors balance receivable for the supply of cashew seedlings to the Ministry of Nation Building in the year 2009.
- (b) Withholding Tax amounting to Rs.775,134 existing over several years had been shown as a receivable balance without being adjusted.
- (c) Action had not been taken even during the year under review for the settlement of 03 balances of liabilities amounting to Rs.6,721,078 brought forward over several years.
- (d) The arrears amounting to Rs.1,042,665 receivable for the cashew seedlings distributed to 03 District Secretariats in the years 2012 and 2013 under the Divineguma Programme had not been recovered even by the end of the year under review.

2.4 Non-compliance with Laws, Rules, Regulation and Management Decisions

Non-compliance with laws, rules, regulations and management decisions observed are given below.

Reference to Laws, Rules and Regulations	Non-compliance
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| (a) Inland Revenue Act, No.10 of 2006 | Even though the Corporation is an institution liable for income tax action had not been taken for the preparation of Income Tax Returns for the years of assessment 2011/2012, 2012/2013 and 2013/2014 or for the payment of income tax. |
| (b) Value Added Tax Act, No.14 of 2002 | Where the institution supplying wholesale and retail sale goods is the manufacture of the same goods and where the turnover per quarter exceeds Rs.3 million or the annual turnover exceeds Rs.12 million, the institution should register for Value Added Tax and recover Value Added Tax. But |

the Corporation had not taken action for the recovery of tax.

- (c) Nation Building Levy Act, No. 9 of 2009 Even though institutions engaged in manufacturing activities with turnover exceeding Rs.3 million per quarter or an annual turnover exceeding Rs.12 million are liable to pay the Nation Building Tax the Corporation had not taken action to pay in Nation Building Tax by registering for payment of the Nation Building Tax.
- (d) Public Enterprises Circular No. 58(2) of 15 September 2011 Even though the Chairman and the Vice Chairman cannot be paid the cost of living allowance, contrary to that a sum of Rs.135,980 had been paid as cost of living allowance for the period January to 19 September 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a deficit of Rs.26,057,641 as against the surplus of Rs.966,893 for the preceding year. Accordingly, as compared with the preceding year, a decrease of the Rs.27,024,534 in the financial result was observed. The decrease of the expenditure of the Commercial Division by Rs.11,944,770 and the decrease of the income by Rs.18,679,725 and the decrease of the income of the Service Division by Rs.13,745,051 and the increase of the expenditure by Rs.6,544,528 had been main reasons thereto.

3.2 Analytical Financial Review

According to the financial statements, the financial result of the Corporation for the year ended 31 December 2014 as compared with the position as at 31 December 2013 is given below.

(a) Commercial Division

	Estates and Marketing Division			Percentage of Change Increase/ (Decrease)	Commercial Nurseries Division		
	2014	2013			2014	2013	Percentage of Change Increase / (Decrease)
	Rs.	Rs.		Rs.	Rs.		
Total Income	70,173,571	85,411,920	(18)	50,865,900	54,307,276	(6)	

Total	76,185,806	91,462,288	(17)	24,059,93	20,728,22	16
Expenditure				4	2	
Operating Profit / (Loss)	(6,012,235)	(6,050,368)	(1)	26,805,96	33,579,05	(20)
Profit Margin – Percentage	(8)	(7)		6	4	
				111	162	

(b) Services Division

	2014	2013	Percentage of Change Increase/ (Decrease)
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	Rs.	Rs.	
Government Grants - Capital	19,448,757	25,044,560	(22)
- Recurrent	50,000,000	52,500,000	(5)
Profit of the Commercial Division	20,793,731	27,528,686	(24)
Interest Income	3,151,683	6,668,908	(53)
Profit from Disposal of Assets	265,147	2,531,823	(90)
Other Income	213,191	78,538	171
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Total Income	93,872,509	114,352,515	(18)
Total Expenditure of Service Division			
	119,930,150	113,385,622	6
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Profit / (Loss)	(26,057,641)	966,893	
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- (i) The operating loss of the Estates and Marketing Division for the year under review represented 8 per cent of the cost of manufacture and the operating loss of for the preceding year had been 7 per cent.
- (ii) The cost of a cashew seedlings and a grafted cashew plants during the year under review had been Rs.31 and Rs.43 respectively and the sale price amounted to Rs.100 and Rs.200 respectively. As such the Commercial Nursery Division had achieved a high profit margin of 111 per cent.
- (iii) Even though the sales income of cashew seedlings had rapidly increased since the year 2012 due to the sale of cashew seedlings to the Devineguma Programme the cashew seedlings income in the years 2013 and 2014 as compared with the year 2012, had decreased by 47 per cent and 50 per cent respectively.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The information on the production of the cashew estates of the Corporation, production cost and the extent cultivated is given below.

Estates	Production Cashew Nuts ----- Kilogram	Cost of Productio n ----- Rs.	Cost per kilogram ----- Rs	Matured Cashew Areas ----- Hectares	Unmatured Cashew Areas ----- Hectares	Age Level	
						Mature d ----- - Years	Unma tured ----- Years
Puttalam	7,261.0	10,177,233	1,402	204.50	98.89	Over 30	less than 5
Kamandaluwa	15,223.0	9,368,145	615	119.00	47.00	Over 30	less than 5
Eluwankulama	64,591.5	8,030,063	124	72.50	10.50	Over 14	less than 5
Hardy	5,834.0	1,677,705	288	70.85	20.24	Over 30	less than 5
Nalmudu	6,813.5	1,470,848	216	20.24	8.09	Over 10	less than 5
Willachchiya	1,076.5	235,139	218	7.28	2.83	Over 10	less than 5
Mahaoya	537.0	-			10.12		less than 5
Suduwathura Ara	100.0	-			10.12		less than 5
Total	----- 101,436.5 =====			----- 494.37 =====	----- 207.79 =====		

- (i) Out of the 494 hectares of cashew plantation owned by the Corporation, cashew cultivated in 394 hectares had passed age exceeding 30 years. Even though the Corporation had replanted 40 hectares of the old cultivation during the year 2013, replanting of the lands with old cultivation had not been done in the year 2014.
- (ii) Even though the market price of a kilogram of cashew nuts amounted to Rs.250, the cost of production of a kilogram of cashew nuts in the Puttalam, Kamandaluwa and Hardy Estates had been much higher than the market price.

(b) Subsidy Programme

Out of the cashew seedlings distributed by 08 Regional Offices in the years 2010 and 2011 for the planting of cashew seedlings and grafted plants under the Subsidy Programme, the particulars of successful seedlings as at the end of the year under review are given below.

Regional Offices	Year 2010			Year 2011		
	Number of Seedlings Issued	Successful seeding cultivation as at the end of 2014	Percentage	Number of Seedlings Issued	Successful seeding cultivation as at the end of 2014	Percentage
Grafted Cashew Cultivation						
Mahiyangana	9,360	978	10	12,340	2,103	17
Naula	23,520	4,167	18	22,600	5,938	26
Puttalama	45,960	6,920	15	48,160	10,372	22
Kurunegala	35,440	9,101	26	30,160	8,031	27
Ampara	8,800	964	11	14,720	1,607	11
Batticaloa	19,600	2,940	15	12,000	3,020	25
Anuradapura	34,200	5,355	16	35,480	7,969	22
Seedlings Cultivation						
Trincomalee	2,200	134	6	8,000	787	10
Batticaloa	14,000	3,052	25	8,000	2,400	30
Ampara	-			4,000	377	9
Total	193,080	34,061		195,660	42,610	

(i) According to the above table, out of 193,800 seedlings and grafted plants distributed in the year 2010, the number of successful cultivation as at the end of the year 2014 had been 34,061 seedlings or 17.5 per cent.

(ii) Out of the 195,660 seedlings and grafted plants distributed in the year 2011, the number of successful cultivation as at the end of the year 2014 had been 42,610 seedlings or 21.8 per cent.

(iii) The Corporation had spent sum of Rs.22,403,139 and Rs.21,098,216 during the years 2010 and 2011 respectively for the Subsidy Programme. Even though a large amount of capital grants had been invested annually as subsidy, the progress of the programme had been at a low level.

4.2 Management Inefficiencies

The following observations are made.

- (a) The loss sustained from the perished seedlings and grafted plants of the Commercial Nurseries during the year under review amounted to Rs.3,759,120 and that as compared with the preceding year indicated a very high increase of 3,851 per cent.
- (b) Puttalam, Kamandaluwa and Hardy Estates had sustained operating losses amounting to Rs.8,095,121, Rs.4,535,952 and Rs.268,105 respectively due to the direct and administration expenditure being higher as compared with the income.

4.3 Transactions of Contentious Nature

A new Medical Aid Scheme had been implemented with effect from 04 June 2013 and under that each employee and the family members are reimbursed annually Rs.15,000 for outdoor treatment and Rs.50,000 for hospitalized treatment while the monthly membership fee amounted to Rs.300. A clause that such limits on reimbursements do not apply to the Chairman had been indicated in the Medical Aid Scheme and sums of Rs.286,655 and Rs.104,772 had been reimbursed as medical expenditure of the Chairman during the years 2013 and 2014 respectively.

4.4 Staff Administration

Out of the approved staff of the Corporation, 36 vacancies comprising 02 vacancies in the top management posts, 25 vacancies in the Executive and non-executive posts and 09 vacancies of minor employees existed.

5. Accountability and Good Governance

The transfer of title to the lands not belonging to the Corporation on which cashew is cultivated, to the Corporation, discussed by the Committee on Public Enterprises on 24 July 2012 had not been done even up to 30 April 2015.

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 Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Stock Control
- (b) Sale of Cashew Kernels to Franchise Shops