Palmyrah Development Board - 2015

The audit of financial statements of the Palmyrah Development Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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 44 of the Coconut Development Act, No. 46 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 presentation 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 Auditing 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 the 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 2015 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 Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS)

SLPSAS 7- Property, Plant and Equipment:- The fully depreciated assets procured by the Board at a cost of Rs. 8,063,716 during the previous years are being used by the Board without reviewing the useful life of them and accounted the changes in terms of Section 65 of the Standard.

2.2.2 Un-identified Differences

Differences aggregating Rs.1,036,137 were observed between the value of 06 items shown in the ledger accounts and the financial statements for the year under review and action had not been taken to identify the reasons for these differences.

2.2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to recover an advance of Rs. 1,444,866 given to a third party for more than five years.

(b) A sum of Rs. 5,293,588 had been included in the payable balances for the period of more than six years without being settled those balances.

(c) Festival advance of Rs. 18,000 had been included in the outstanding balance for more than six years and actions had not been taken to recover the dues.

2.2.4 Lack of Evidence for Audit

The following evidence relating to the transactions worth Rs.59,180,659 as indicated against the each items shown below had not been furnished to audit.

Items	Value Rs.	Evidence not made available
Land and Buildings	50,094,735	Valuation reports
Staff Loans and Advances	259,172	Personal loan files
Rent Payments	7,791,247	Valuation reports

Fuel Expenditure	851,065	Signature of officers and purpose of travelled
Electricity	184,440	Original bills

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

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

Laws, Rules, Regulations and Management Decisions	Non – compliance
(a) Finance Act, No. 38 of 1971	
i. Section12	The form and contents of the amount in the financial statements of the Board should be determined by the relevant Minister with the concurrence of the Minister of Finance. However it had not been done so.
ii. Section 14(3)	The Annual Report of the Board for the years 2012, 2013 and 2014 had not been tabled in Parliament.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
i. Financial Regulation 110	A register of losses and damages had not been maintained as requested.
ii. Financial Regulation 135	Financial authority had not been properly delegated by the Chairman of the Board.
iii. Financial Regulations 272(3)	Paid vouchers had not been forwarded to audit monthly, not later than six weeks from the end of the month to which they relate.
iv. Financial Regulation 445	Inventory register had not been maintained properly by the District Offices and Centres.
v. Financial Regulation 715	Proper stores procedures had not been followed by the Centres belonging to the Board.
vi. Financial Regulation 751(i)	Various deficiencies were observed with regard to recording the purchases and maintenance of inventories in the stock books.

vii. Financial Regulation 756 (5)	The register of inventory had not been promptly maintained showing clearly the receipts, issues and the balance carried forward. Prescribed formats had not been used by the Board for the stores verification.
viii. Financial Regulation 757(1)(c), (2) (a) and (2)(c)	(i) Reports of the Annual Board of Survey had not been submitted to the Chairman promptly. (ii) Action on the matters pointed out in the Board of Surveys Reports for the previous years also had not been taken. (iii) Copy of the Board of Survey Report had not been forwarded to the Auditor General.
ix. Financial Regulations 1010(b)	Vehicles had not been physically verified by the Board

(c) Public Enterprises Circular No. PED/12 of 02 June 2003

(i) Paragraph 4.2.2	Board had not periodically reviewed its Corporate Plan, Budgets and Performances to ensure that actual performance is in line with the plan and remedial action had not been taken on variations wide discrepancies.
(ii) Paragraph 4.2.5	The Board had not institute systems for effective management of its working capital. The following statements had not been reviewed monthly basis at Board Meetings, a) Age analysis of debtors and creditors b) Age analysis of stocks c) Statement identifying old, slow moving and obsolete stocks and other items.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Board had resulted in a deficit of Rs. 125,783,577 for the year under review as compared with the corresponding deficit of Rs. 10,416,894 for the preceding year thus, indicating a further deterioration of Rs. 115,366,683 in the financial results of the Board. Charging the research and development expenditure, and training expenditure of Rs.131,538,113 against the income for the year under review due to changes in accounting policies was the main reason attributed for this deterioration.

Even though the operations of the Board during the year under review had resulted in a deficit of Rs. 125.78 million, the contribution of the Board to the Country during the year under review was Rs. 200.89 million. Hence, the value addition at the end of the year under review was Rs.75.11 million. The details of the value addition at the end of the year under review and previous four years are shown below.

Description	2015 Rs. Mn.	2014 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.
Deficit for the year	(125.78)	(10.42)	(12.58)	(9.76)	(3.15)
Add:					
Personnel Emoluments	113.93	63.73	57.58	51.97	49.94
Rate & Taxes	0.03	0.04	0.04	0.01	0.03
Depreciation	86.93	12.12	13.16	8.62	6.31
Total Contribution	**200.89**	**75.89**	**70.78**	**60.60**	**56.28**
Value Addition	**75.11**	**65.47**	**58.20**	**50.84**	**53.13**

Increase of personal emoluments and depreciation during the year under review by were the main reasons attributed for the improvement in the value addition for the year under review.

3.2 Analytical Financial Review

Although the total operating expenditure of the Board for the year under review was Rs.155,929,309 out of this Rs. 113,933,123 had been incurred for personnel emoluments and it represent 73 per cent of the total expenditure.

4. Operating Review

4.1 Performance

The following observations were made.

(a) Achievement of main objectives

The Board had not taken adequate actions to achieve its main objectives such as contribute for national economic growth and healthy society through increasing its products levels and marketing on various types of palmyrah products such as jaggery, traeable, sweet toddy, sugar candy, bottle toddy, vinegar, bottled pulp, pannadu, pani pannadu, jam, cordial, ready to serve drink, medicinal based products, tuber (fresh), dried tuber, dried tuber flour, boiled tuber flour, palm posha, biscuits, cakes, traditional handicrafts, rattan like weaving baskets, weaving chairs, boxes for packing cashew, tea and spices, hats, mats, ekel products such as, brooms, tooth picks, skew sticks, etc, flower pots, ornamentals, wall hangers, fibre dust as growing media for horticultural plants, soil salinity control, hard fibre - heavy brushes, medium fibre - cleaning and household brushes, soft fibre, yarn, fibre handicrafts, construction purposes, furniture making, chip boars and fuel wood.

(b) Operation of Thickam Distillery Project

According to the lease agreement entered into between the Vadamaradchy Palm Development Corporative Society Cluster Project and the Board on 10 April 2008, the valuable assets owned by the Palmyrah Development Board had been given to the Palm Development Corporative Society on lease basis. In this regards, the following observations are made.

i) The value of assets which were given on lease basis as at 31 December 2010, 2011, 2013, 2014 and 2015 had not been adjusted in the financial statements of the Board.

ii) No action had been taken to recover the monthly royalty and lease rental as per paragraph 01 and 02 of the lease agreement since May 2008.

iii) The Palm Development Corporative Society had not taken action to take over the valuable assets given by the Board. At the physical verification carried out on 25 February 2016, it was revealed that several assets had been unutilized / damaged.

(c) Model Farms Running at Loss

Five Model Farms continuously had been running at a loss and the losses sustained during the year under review and in the previous 03 years period are shown below.

Name of the Model Farm	Net loss for the years			
	2015	2014	2013	2012
	Rs.	Rs.	Rs.	Rs.
Kudathnanai	688,821	545,045	462,273	475,675
Mamunai	608,282	694,221	571,755	759,630
Delft	60,000	61,620	380,044	61,180
Puliyankulam	2,383,310	1,771,618	700,423	800,215
Weeravila	2,302,275	1,415,480	1,718,931	1,954,470
Net loss	**6,042,688**	**4,487,984**	**3,833,426**	**4,051,170**

Further, the under mentioned Two Models Farms with the total extent of 85 acres had been allowed to be idle fully since 2010. Details are as follows.

Location of the Farm	Extent of the Land (Acres)
Mamunai	78
Ariviyal Nagar	07
Total	**85**

(e) Performance of Seeds and Seedling Planted

Performance of seeds and seedling planted during the years from 2012 to 2015 are as follows.

	Number of seeds planted planted	Number of seedlings	Total
2012	19,000	59,055	78,055
2013	90,130	51,560	141,690
2014	382,700	25,610	408,310
2015	1,183,755	4,000	1,187,755

In order to increase the survival rate, seedling plantation was introduced in year 2012 as a strategic move to effective plantation. Though the seedling plantation showed better survival rate of 70-75 per cent in early stage it was not persist longer in some open plantation locations, where the seedling were easily removed by the livestock and pig (for tuber). This situation leaded to less than 10 per cent of survival in open location plantation where the seedlings planted in closed areas (fenced lands with good care) showed 70 per cent of survival rate in later stage also.

Therefore, seedling production was reduced last year, and seedlings were issued only for fenced land and seeds for open area (road site, grounds) plantation with the view to conduct economically effective plantation.

4.2 Management Weaknesses

The following observations are made.

(a) No action had been taken to increase the production capacity of Weeravila Model Farm as 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.

(b) Manager, Marketing and Productions and 51 other staff were appointed without required qualifications specified in the Scheme of Recruitment.

(c) Payments to the district officers other than Jaffna district had been made to the private bank accounts of the coordinator during the year under review.

(d) Production of Palmyrah fibre recorded decreasing trend in Jaffna and Mannar centres due to increase in cost of production and poor maintenance of production Centres.

(e) Action had not been taken on the direction given by COPE on 11 March 2016, relating to the expenses for the electricity as well as the water in the sublet portion of the building in Colombo – 04 had to be borne by the Palmyrah Development Board. It was directed the Accounting Officer to send the documents to the Auditor General in order to prove that the above bills of the sublet portion of the building was paid separately.

(f) Building of Industrial complex at Karainagar costing Rs. 7,377,318 and Fibre Centre at Delft costing Rs. 900,000 had been capitalized to building account, and made a provision for accumulated depreciation of Rs.3,273,527 and Rs.180,000 respectively even though the ownership of the lands was not belongs to the Board.

(g) A detailed expenditure statement for Rs.29,572,520 incurred on livelihood special projects funded by the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs had not been prepared and submitted along with the financial statements.

4.3 Human Resources Management

The following observations were made.

(a) It was observed that service from 10 persons had been obtained continuously on casual basis without being taken action to fill these vacancies permanently and no action had been taken to obtained the approval for 13 excess cadre in primary level and fill 23 vacancies existed by the end of the year under review.

(b) Although Scheme of Recruitment was approved by the Department of Management Services on 9 October 2015, no proper action had been taken to regularize the existing cadre and payment of salary according to the Scheme of Recruitment.

(c) Recruitments for 59 posts were made during the years from 2011 to 2015 and 14 persons had been promoted to various posts during the same period without a Scheme of Recruitment.

(d) Adjustments for salary anomalies had not been effected even after the Scheme of Recruitment approved.

4.4 Utilization of Vehicles

The following observations were made.

(a) Purpose of trips to 19,652 Km travelled had not been entered in the running charts of four vehicles.

(b) Signatures of the officers used the vehicles were not placed in the daily running charts of nine vehicles travelled for 13,547 Km.

(c) Fuel consumption testing for 26 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 Presentation of Financial Statements

The financial statements for the year ended 31 December 2015 required to be presented for audit before 30 April 2016 in terms of Section 14(6) of the Finance Act, No. 38 of 1971. However, the financial statements had been prepared and presented for audit only on 06 June 2016.

5.2 Action Plan

(a) The Board had not prepared an Annual Action Plan at the beginning of the year and annual performance report for the year under review in terms of Circular No. 01/2014 dated 17 February 2014 of the Director General of Public Finance. However, it had been prepared and submitted for audit only by April 2016.

(b) It was observed that certain targets set out in the Action Plan for the year 2015 regarding the seeds and seedling, jaggery production, pulp production and fibre production had not been achieved thus, it had not been used as an effective instrument of Good Governance.

5.3 Corporate Plan

Though the Board had prepared a Corporate Plan for the period 2015-2019, it had not been updated in the year 2015 in terms of Circular No. PED/RED/01/04/2014/01 dated 17 February 2014 issued by the Director General of Public Finance.

5.4 Procurement Plan

A Procurement Plan had not been prepared at the beginning of the year under review in terms of Guidelines 4.2 of the Procurement Guidelines - 2006.

5.5 Internal Audit

The following observations were made.

(a). The Chief Internal Auditor had been given vacation of post by the Board on 24 April 2015. Subsequently, he had filed a legal case against the Board and reinstated in the post on 11 March 2016. In this connection, a sum of Rs. 505,231 had been paid to the officer during the period of his vacation of post as judgement had been given in favour of the officer concerned.

(b) Even though an Internal Audit Division had been established with two internal auditors, no other staff had been appointed for the effective operations of the Division. As per the internal audit programme for the year under review the following areas of transactions were not fully examined/ covered by the Internal Audit Division.

(i) Management of Capital works
(ii) Livelihood Project Management
(iii) Unsettlement of Advances.
(iv) Assets Management
(v) Utilization of Fund

5.6 Audit and Management Committee

Although the Board had established an Audit and Management Committee, the meetings of the Management Committee had not been conducted in 2015. However, according to the

Public Enterprises Circular No. PED/31 of 01 July 2005, at least four meetings should be conducted in every year.

5.7 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure for the year under review and sums aggregating Rs.11,524,000 incurred as expenditure for acquisition of vehicles, furniture and equipment, buildings, machineries and testing lab equipment without the budgeted estimates, thus indicating that the budget had not been made use of as an effective instrument of management control.

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 control over fixed assets i.e. presentations of fair value of the fully depreciated assets and effectively utilize the fixed assets.