

## **Palmyrah Development Board – 2016**

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The audit of financial statements of the Palmyrah Development Board (“the Board”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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**

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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**

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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.

## 2. Financial Statements

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### 2.1 Opinion

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In my opinion, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2016 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

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#### 2.2.1 Lack of Evidence for Audit

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The following evidence to the value of Rs.575,166 as indicated against the each items shown below had not been rendered for audit.

<u>Items</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
Rent payments	372,238	Valuation reports for the Katpakam Sales Centres and District Offices obtained on rental basis.
Fuel expenditure	202,928	Signature of officers used vehicles and purpose of trips travelled.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken to recover an advance of Rs. 1,444,866 given to five third parties remained unrecovered for more than five years as at 31 December 2016.
- (b) Accounts payable such as payable to staff welfare society, Department of Inland Revenue and P.P.S.C.S Vanni and a provision for handicraft training aggregating Rs.5,068,804 had been included in the outstanding balances without being settled or taking proper actions in this regard.

### 2.4 Non – compliance with Laws, Rules Regulations and Management Decisions

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

**Reference to Laws, Rules, Regulations and  
Management Decisions**

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**Non – compliance**

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**(a) Finance Act, No. 38 of 1971**

Section 14(3)

The Annual Report of the Board for the years 2012, 2013, 2014 and 2015 had not been tabled in Parliament.

**(b) Financial Regulations of the Government  
of the Democratic Socialist Republic of  
Sri Lanka**

i. Financial Regulation 272(3)

All Paid vouchers had not been forwarded to audit monthly, not later than six weeks from the end of the month to which they relate.

ii. Financial Regulation 445

Inventory register had not been maintained properly by the District Offices and Sales Centres.

iii. Financial Regulation 715

Proper stores procedures had not been followed by the Sales Centres belonging to the Board.

iv. Financial Regulation 751(1)

- Various deficiencies were observed with regard to recording the purchases and maintenance of inventories in the stock books.
- The register of inventory had not been promptly maintained by showing clearly the receipts, issues and the balances carried forward.

v. Financial Regulation 1010(b)

Vehicles had not been physically verified by the Board.

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

Paragraph 4.2.5

The Board had not institute systems for effective management of its working capital. Hence the following statements had not been reviewed monthly basis at the Board Meetings.

- Age analysis of debtors and creditors
- Age analysis of stocks
- Statement identifying old, slow moving and obsolete stocks and other items.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the working of the Board had resulted in a deficit of Rs. 128,597,258 for the year under review as compared with the corresponding deficit of Rs. 125,783,577 for the preceding year, thus indicating a further deterioration of Rs. 2,813,681 in the financial results of the Board. The main reasons attributed for this deterioration were charging the research and development expenditure and training expenditure of Rs.130,574,756 against the income for the year under review.

Even though the operations of the Board during the year under review had resulted in a deficit of Rs. 128.59 million, the contribution of the Board to the country during the year under review after taking into account the personnel emoluments, rate and taxes paid to the Government and depreciation was Rs. 215.15 million. Hence, the value addition at the end of the year under review was Rs. 86.56 million. Further, the value addition at the end of the year under review had increased by 15 per cent as compared with the previous year.

#### **3.2 Analytical Financial Review**

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Although the total operating expenditure of the Board for the year under review was Rs.165,738,779, out of this Rs. 120,080,365 or 72 per cent had represented the expenditure incurred for personnel emoluments.

### **4. Operating Review**

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#### **4.1 Performance**

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The Board had not taken prompt or fruitful actions even in the year under review to increase its product levels and introduce various types of palmyrah products to the market in order to achieve its main objectives and contribute to the national economic growth of the country.

#### **4.2 Operating Weaknesses**

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##### **4.2.1 Operation of Thickam Distillery Project**

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The following observations were made.

- (a) According to the lease agreement entered into with Vadamaradchy Palm Development Corporative Society Cluster Project on 10 April 2008, the valuable assets owned by the Board had been given to the Society on lease basis.

The following observations are made in this connection.

- i) No action had been taken to recover monthly royalty and lease rental as per paragraph 01 and 02 of the lease agreement since May 2008.
- ii) At the physical verification carried out on 25 February 2016, it was revealed that several assets given to the Society were kept without being utilized for intendant purposes and some were damaged.

(b) A Provision of Rs. 112.5 million given by the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs for the renovation of the Thickam Distillery had not been utilized by the Board during the year under review.

#### 4.2.2 Model Farms Running at Loss

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Six Model Farms had continuously running at loss over last 03 years and the losses sustained during the year under review and in the previous 02 years are given below.

Name of the Model Farm	Losses for the years		
	2016 Rs.	2015 Rs.	2014 Rs.
Kudathnanai	276,556	688,821	545,045
Mamunai	452,418	608,282	694,221
Delft	56,828	60,000	61,620
Puliyankulam	2,283,204	2,383,310	1,771,618
Urtupulam	98,203	-	98,203
Weeravila	<u>3,078,144</u>	<u>2,302,275</u>	<u>1,415,480</u>
<b>Total Loss</b>	<b><u>6,245,353</u></b>	<b><u>6,042,688</u></b>	<b><u>4,586,187</u></b>

Further, the under mentioned lands with the total extent of 137 acres had been allowed to be idle fully since 2010. Details are shown below.

Location of the Farm	Extent of the Land ( Acres)
Mamunai	78
Ariviyal Nagar	07
Ootupulam	50
Mulankavil	<u>02</u>
<b>Total</b>	<b><u>137</u></b>

In this regard the Chairman had informed me that the action was initiated to develop these lands as Palmyra Farms.

### 4.2.3 Performance of Seeds and Seedling Planted

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In order to increase the survival rate, seedling plantation was introduced in year 2012 as a strategic move to the 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 led 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, the directives had been given by the Committee on Public Enterprises (COPE) on 11 March 2016 to stop seedling. However, contrary to the directives given by the COPE seedlings were issued for fenced land and seeds for open area (road site, grounds) plantation with the view to conduct economically effective plantation.

The performance of seeds and seedling planted during the years from 2014 to 2016 are as follows.

<b>Year</b>	<b>Number of seeds planted</b>	<b>Number of seedlings planted</b>	<b>Total</b>
2014	382,700	25,610	408,310
2015	1,183,755	4,000	1,187,755
2016	170,000	4,300	174,300

### 4.2.4 Operation of Palmyrah Research Institute

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The following observations are made.

- i) Although a sum of Rs 65 million had been spent for conducting research activities during the period from 2010 to 2016, the small and medium entrepreneurs or the Palmyrah community had not benefitted by these research activities.
- ii) The Institute had failed to introduce new Palmyrah base products to the market after conducting proper researches in order to obtain maximum benefit from the prevailing market opportunities.

### 4.2.5 Operation of Katpakam Sales Centres

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Sixteen Katpakam Sales Centres have been running at loss of Rs.9,978,883 during the year under review due to operating the Sales Centres without being prepared strategic marketing plans and proper monitoring systems.

#### **4.2.6 Delays in Completion of Project**

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The construction works of the new Production Centre is constructing at Palmyrah Research Institute should be completed on or before 28 February 2017. However, only 70 per cent of works were completed up to 10 June 2017.

#### **4.2.7 Palmyrah Livelihood Activities**

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A provision of Rs. 160 million had been provided by the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs during the year under review for Palmyrah livelihood activities. Out of that only Rs. 80 million had been utilized through the Distinct Secretariat, Jaffna and the remaining provision had not been utilized for the intended purposes up to 31 August 2017.

#### **4.3 Management Weaknesses**

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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 Recruitments and Promotions. In this connection, no action had been taken on the direction given by COPE on 11 March 2016.
- (c) Manufactory of Palmyrah fibre products recorded decreasing trend in Jaffna and Mannar Centres due to increase of cost of production and poor maintenance of Production Centres.
- (d) A sum of Rs. 505,231 paid to the Internal Auditor as salaries for 320 days during the period of his absence for duty. In this regard the Chairman had stated that the Management has reinstated the respective Internal Auditor to the Board based on the judgement awarded by the Labour Tribunal, Colombo. The judgement stated and disclosed to reinstate with full back wages and other government approved allowances.

#### **4.4 Human Resources Management**

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Services from 06 persons had been obtained continuously on casual basis without being taken action to fill the vacancies permanently and no action had been taken to obtained the approval for 12 excess cadre in primary level and fill 17 vacancies existed by the end of the year under review.

#### **4.5 Utilization of Vehicles**

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The following observations were made.

- (a) Purpose of trips relating to 976 Km travelled had not been entered in the running charts of four vehicles.
- (b) Signatures of the officers used the vehicle for travelled 1,004 km were not placed in the daily running charts of nine vehicles.
- (c) Fuel consumption tests for 27 vehicles had not been performed by the Board in terms of Public Administration Circular No. 41/90 dated 19 October 1990.

#### **4.6 Transaction of Contention Nature**

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A sum of Rs. 2,525,000 had been paid for purchase of 20 laptop computers out of the fund received for Palmyrah Livelihood Development Project by the District Secretariat, Jaffna. However, these computers were not distributed and allowed to idle at the store of the Board.

#### **4.7 Unsettled Audit Issues pointed out in the previous years' Audit Reports**

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- (a) Action had not been taken on the direction given by COPE on 11 March 2016, relating to the expenses incurred by the Board for the electricity and water on behalf of sublet portion of the building in Colombo – 04 even though 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.
- (b) The operations of the industrial activities had not been commenced even though the construction works of Industrial complex at Karainagar and Fifer Centre at Delft were completed in 2015 by incurring the expenditure of Rs. 7,377,318 and Rs. 900,000 respectively.

### **5. Accountability and Good Governance**

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#### **5.1 Procurement Plan**

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

#### **5.2 Internal Audit**

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The following observations are made.

- (a) Even though a sum of Rs. 2,443,879 spent for internal audit, the Internal Audit Unit had not been functioned effectively during the year under review.



- (b) Several weaknesses in internal controls were observed during the year under review due to non-effective functions of the Internal Audit Unit.
- (c) Quarterly audit reports and copies of audit queries had not been rendered to the Auditor General.
- (d) Construction works and activities of the Palmyrah Research Institute had not been subject to internal audit even though several million of rupees had spent to research works every year.

### **5.3 Budgetary Control**

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Significant variances ranging from 10 per cent to 112 per cent 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.

### **6. Systems and Controls**

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Deficiencies observed in systems and controls during the course of audit 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 and research activities of Palmyra Research Institution.