

Palmyrah Development Board – 2017

The audit of financial statements of the Palmyrah Development Board (“the Board”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in equity and statement of cash flows 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 was issued to the Chairman of the Board on 13 August 2018.

1.2 Management 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 Board as at 31 December 2017 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-07 Property, Plant and Equipment: Six fully depreciated assets costing Rs.22,395,067 purchased during the previous years are being continuously used by the Board without re-assess the economic useful lifetime of such assets even in the year under review and accounted them accordingly.

2.2.2 Accounting Deficiencies

Receivables aggregating Rs.4,894,325 had remained outstanding for more than three years without being recovered from 09 third parties. However, no provision for impairment had been provided thereon in the financial statements for the year under review.

2.3 Accounts Payable

Actions had not been taken to settle or make suitable adjustments in the accounts after conducting proper investigation with regard to payables totalling Rs. 248,885 which remained in the accounts for more than three years.

2.4 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.

**Reference to Rules, Regulations
and Management Decisions etc.**

Non – compliances

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

(i) Financial Regulation 110

A register pertaining to losses and damages had not been maintained by the Board.

(ii) Financial Regulation 135

Financial authority had not been delegated by the Chairman of the Board.

(iii) Financial Regulations 445, 715
and 751

(i) Inventory registers by clearly showing the receipts, issues and the balances carried forwarded had not been promptly maintained and proper stores procedures had not been followed by the District Offices and Centres belonging to the Board.

(ii) Actions on shortages, excesses and other observations pointed out in the Boards of Survey Reports for the previous year had not been taken.

**(b) 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 by reviewing the following statements on a monthly basis at Board Meetings,

(i) Age analysis of debtors and creditors

(ii) Age analysis of stocks

(iii) 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. 131,952,115 for the year under review as compared with the corresponding deficit of Rs. 128,597,258 for the preceding year, thus indicating a further deterioration of Rs. 3,354,857 in the financial results of the Board. Increase of development and training expenditure by Rs.8, 739,881 was the main reason attributed for this deterioration.

Even though the operations of the Board during the under review had resulted in a deficit of Rs. 131.95 million, the contribution of the Board to the country during the year under review was Rs. 208.91 million. Further, the value addition of the Board as at the end of the year under review after taking into accounts the personal emoluments and depreciations for the year under review was Rs. 76.96 million.

3.2 Analytical Financial Review

The following observations were made.

- (a) Although the total operating expenditure of the Board for the year under review was Rs. 181,303,559, out of this a sum of Rs. 123,078,150 or 67 per cent had represented the expenditure incurred for personnel emoluments.
- (b) Gross Profit Margin of the Board had increased from 19 per cent in the previous year to 27 per cent in the year under review due to not charged the employee cost of Katphakam Centres in the computation of Gross Profit for the year under review.
- (c) Gross Profit of the Katphakam Centres had covered only 09 per cent of the employee cost of the Board for the year under review.

4. Operating Review

4.1 Performance

The following observations were made.

- (a) The Board had not taken action to achieve its main objectives to contribute for national economic growth, healthy society and reduce solid waste problems through increasing its products levels and extending the markets for various types of palmyrah products such as jaggery, traeeable, sweet toddy, sugar candy, bottle toddy, vinegar, bottled pulb, 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 boards and fuel wood.
- (b) Certain targets set out in the Action Plan for the year 2017 regarding the jaggery production, pulp production and fibre production had not been achieved.
- (c) The Board had not taken actions to export palmyrah handicrafts and related products for the purposes of livelihood development of depended families.

4.2 Operating Weaknesses

4.2.1 Operation of Thickam Distillery Project

The following observations are made.

- a) Action had not been taken to recover the monthly royalty and lease rental of Rs.1,609,453 since May 2008 from the Vadamaradchy Palm Development Corporative Society Cluster Project in terms of Sections 01 and 02 of the lease agreement entered into with above Society.
- b) Provisions of Rs.112.5 million and Rs.150 million had been provided by the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs in the years 2016 and 2017 respectively for the renovation of the Thickam Distillery which not operated after the year 2015. However, action had not been taken to comments the operation of the Distillery even up to 26 September 2018 by utilizing the above provisions.

4.2.2 Model Farms Running at Loss

Four Model Farms had continuously running at loss over last 05 years and the losses sustained during the year under review and in the previous 04 years are given below.

Name of the Model Farm	Net loss for the years				
	2017	2016	2015	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.
Kudathnanai	259,108	276,556	688,821	545,045	462,273
Mamunai	411,543	452,418	608,282	694,221	571,755
Delft	2,168	56,828	60,000	61,620	380,044
Puliyankulam	830,097	2,283,204	2,383,310	1,771,618	700,423
Net loss	<u>1,502,916</u>	<u>3,069,006</u>	<u>3,740,413</u>	<u>3,072,504</u>	<u>2,114,495</u>

Further, another four Models Farms namely Mamunai, Ariviyal Nagar , Ootupulam and Mulankavil situated in a land with the total extent of 137 acres had not been commenced their activities since 2010.

4.2.3 Operation of Palmyra Research Institution

The following observations are made.

- (a) Although a sum of Rs. 74 million had been spent for conducting research activities during the period from 2010 to 2017, the small and medium entrepreneurs or the Palmyrah community had not benefitted by these research activities.

- (b) There is no scientific evaluation procedure to approve research proposals.
- (c) The Researches had not made their attention to introduce alternative and attractive handicrafts products in order to reduce the polythene usage of the country.

4.2.4 Operation of Katpakam Sales Centres

Two Katpakam Sales Centres running at loss aggregating Rs.119,880 during the year under review due to operation of sales centres without an strategic marketing plan and proper monitoring system.

4.3 Contract Administration

The following observations are made.

- (a) A sum of Rs.4,122,497 had been spent during the year under review to construct a production centre for the Board and it should be completed on or before 28 February 2017. However, it had been handed over to the Board on 23 February 2018 with the delay of 337 days after completing only 90 per cent of the works and liquidated damage had also not been imposed to the contractor for the delay.
- (b) The Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs had released an amount of Rs. 25 million to construct a two story building for Palmyrah School at Kaithady. However, the construction works had not been carried out during the year under review except laid the foundation stone.

4.4 Irregular Transactions

The following observations were made.

- (a) Internal Auditor of the Board has been recruited on permanent basis during the year 2011 and he was paid a monthly salary of Rs.55,671 during the year under review. In addition to that, he was paid other allowances aggregating Rs.128,448 in the year 2017. In the same time he was working as a Senior Assistant Internal Auditor at the University of Uva Wellassa during this period without acknowledge to the Board or obtain required approvals from relevant authority.

According to the information made available for audit, he was obtained a salary of Rs.600,000 from the University of Uva Wellassa on behalf of his service provided to the University during the period from 01 August 2017 to 31 July 2018. Further, he was obtained an amount of Rs.72,000 as travelling claim by submitting forged documents to the Board.

- (b) Salary increments totalling Rs.4,280,600 had been granted to 08 officers of the Board contrary to the provisions in the Scheme of Recruitments and Promotions. As a result, an excess contribution of Rs. 627,577 had to be made to the Employee Provident Fund and Employee Trust Fund on behalf of the above officers.

4.5 Human Resources Management

The following observations were made.

- (a) Service of 02 casual employees in primary level had been continuously obtained without being taken action to fill those vacancies permanently and no action had been taken to obtain the approval for 10 excess cadres in primary level.
- (b) Efficiency Bar examinations for 212 officers who possessing various posts in the Board had not been conducted. As a result of that their services had not been confirmed even up to 26 September 2018. Further, the educational qualifications of those officers had not got confirm from relevant institutions over last 12 years.
- (c) Although the Scheme of Recruitments and Promotions was approved by the Department of Management Services in 2012, no proper action had been taken to regularize the existing cadre and payment of salaries according to that Scheme.

4.6 Utilization of Vehicles

Action had not been taken to repair and utilize 05 Land Masters, 01 Motor Car -Jeep, 01 Motor Bike, 01 Tractor and 01 Bowser for the activities of the Board.

4.7 Sustainable Development

Action had not been taken to identify the Sustainable Development Goals and Targets which related with the activities of the Board together with milestones in respect of achieving those goals and targets due to un-aware of the said Agenda for the year 2030.

5. Accountability and Good Governance

5.1 Internal Audit

The following observations were made.

- (a) An Internal Audit Plan of the Board had not been prepared at the beginning of the year.
- (b) Quarterly internal audit reports and copies of audit queries had not been rendered to the Auditor General.
- (c) Construction works and activities of the Palmyrah Research Institution had not been subject to audit of the Internal Audit Unit even though several million of rupees spend for research works every year.

5.2 Preparation and Presentation of the Financial Statements

The financial statements of the Board had been prepared and presented for audit without including the statement of responsibility in terms of Public Enterprises Circulars No. PED 45 dated 02 October 2007.

5.3 Audit and Management Committee Meetings

According to the Public Enterprises Circular No. PED/31 of 01 July 2005, at least four Audit and Management Committee meetings should be conducted in every year. However, only three meetings had been conducted during the year under review.

5.4 Procurement and Contract Process

A Procurement Plan had not been prepared at the beginning of the year and rendered to audit in terms of Guidelines 4.2 of the Procurement Guidelines - 2006.

5.5 Budgetary Control

The following observations were made.

- (a) Significant variances ranging from 06 per cent to 129 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.
- (b) A sum of Rs. 65,873,000 was spent for procurement of vehicles, furniture and equipment, buildings, machineries and equipment, testing lab equipment and computers & printers without being made a provision in the budget.

5.6 Tabling of Annual Reports

Annual Report of the Board for the 2015 and 2016 had not been tabled in Parliament.

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 control over Fixed Assets and Research output of Palmyra Research Institution.