

Paddy Marketing Board - 2017

The audit of financial statements of the Paddy Marketing Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 30 of the Paddy Marketing Board No. 14 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. The Transaction Report of the Board for the year 2017 was issued on 28 November 2018 to the Chairman of the Board.

A detailed report in terms of Section 13 (7) (a) of the Finance Act was sent to the Chairman of the Board on 15 August 2019.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair preparation 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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity, and cash flow statement.

2. Financial Statements

2.1 Disclaimer Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Board

The following observations are made.

- (a) As a result of the stock of paddy purchased by the Board was sold for a price less than market price and the cost, arrangements had been made to obtain loan facilities from the General Treasury and the State Banks annually to make funds for the purchase of paddy in the next season and to recover the loss occurred from the sale. Out of the loans and advances obtained from 03 Government Banks for the purchase of paddy and operational expenses of paddy from the year 2009 to 2014, the cumulative payable was Rs. 17,968.1 million and the cumulative interest payable was Rs. 595.15 million as at 31 December 2017. As a result, it could not be ruled out that without government or other financial support to the Board's continued existence does not affect the existing risk for persistence.
- (b) When considering the value of net assets for the year under review and the previous three years the minus value of Rs. 4,396,891,908 in the year 2014 had been increased up to a minus value of Rs. 12,548,690,540 in the year under review and the net current assets as at 31 December in the year under review was a minus value of Rs. 1,628,570,282. It was observed that it could adversely affect the continued existence of the Board.

2.2.2 Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 07

- i. Although the gratuity provision for the year under review was Rs. 3,750,900, it had been stated as Rs. 12,144,932 under the operational activities adjustment in the cash flow statement.
- ii. A sum of Rs. 26,007,397 adjusted against the profit of the preceding year had been adjusted against the profit of the year under review in the operational activities in the cash flow statement.
- iii. The savings interest of the year under review amounted to Rs. 425,855 had not been stated in the investment activities.
- iv. The Pallets amounted to Rs. 62,962,694 had been purchased during the year under review and a sum of Rs. 28,525,004 had been paid for that. Although this value should be included under the acquisitions of property, plant and equipment in the investment activities of the cash flow statement, that value had been shown as Rs. 62,962,694 including in the balance payable amounted to Rs. 34,437,690.

- v. A sum of Rs.68,226,432 for renovation of stores and a sum of Rs.11,122,645 for retentions which had been stated as payable balances to an external institution in the statement of financial position as at 31 December had been shown as cash outflows in under investment activities in the cash flow statement.

(b) Sri Lanka Accounting Standard 16

- i. Although the depreciation rate used or useful lifetime in respect of property, plant and equipment should be disclosed in the financial statements as per Paragraph 73 of this Standard, to the financial statements, The depreciation of the bridge scales and pallets specified under the property, plant and equipment had not been disclosed.
- ii. Because the effective life time of non-current assets was not reviewed annually in accordance with Paragraph 51 of this standard, even though 04 asset items cost at Rs.5,343,708 had been fully depreciated by the year 2016, it was continued to be used. No action was taken to revise the estimated error occurred accordingly as per the Sri Lanka Accounting Standards 08.

(c) Sri Lanka Accounting Standard 20

- i. Identify the Government Grants receive, to purchase long-term assets, constructions or to acquires in other manner as deferred income and recognized on a systematic basis throughout the useful period of the asset's profit or loss in terms of Paragraphs 24 and 26 of this Standard. Accordingly, the depreciation for the assets of the year under review amounted to Rs.5,657,842 had not been adjusted to the statement of financial performance as deferred income.
- ii. Even though the accounting policy used for Government Grants was disclosed in the financial statements, arrangements had not been made in terms of Paragraph 39 of this Standard.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The stock in transit remained for several years amounted to Rs. 54,385,222 had been adjusted to the receivable from the mill owners in the year under review without identification or obtaining proper approval.
- (b) Nine journal entries which had been used to correct previous year transactions for whilst preparation of financial statements amounted to Rs. 5,936,251,166 had been debited and credited to the cash book. Detailed explanations for these notes were not submitted to the audit.

- (c) Although the advance payment made during the period under Note 04 relating to the work in progress account in the financial statement was Rs. 63,620,731 it had been stated as Rs. 52,452,810 in the Note.
- (d) Without carrying out physical verification of paddy stock by the Board for the value of the remaining stock as at December 31 of the year under review, the book balance of Rs. 3,089,833,136 had been shown in the financial statement as at the end of the year. Accordingly, the existence and value of this stock could not be ascertained

2.2.4 Unexplained Differences

- (a) There was a difference of Rs. 41,153 between the balance of the bank confirmation letters received from the two current bank accounts and the balance of the bank reconciliations.
- (b) There were differences existed as at 01 January 2017 amounted to Rs. 138,674,163 and Rs. 210,670 as at 31 December 2017 according to the People's Bank's overdraft balance in the financial statement presented, the ledger and confirmation of bank balance.
- (c) Even though a sum of Rs.445,851,745 receivable under from the Department of Food Commissioner had been shown under debtors in the financial statement submitted, it had been informed that there was no such balance to be paid to the Board as per the balance confirmations issued by the Food Commissioner on 09 July 2019 .

2.2.5 Accounts Receivable and Payable

The following observations are made.

- (a) Within the debtor balance amounted to Rs. 4,151,314,979 as at 31 December 2017, there were the balances of Rs.560,191,839 for more than 5 years, a sum of Rs.1,357,210,051 in between 3 to 5 years, a sum of Rs. 29,312,345 in between 1 to 3 years and a sum of Rs. 2,204,600,744 for less than 1 year.
- (b) Within the creditor balance amounted to Rs. 7,055,612,598 as at 31 December 2017, there were the balances of Rs. 4,858,937 for more than 4 years, a sum of Rs.276,951,461 in between 3 to 4 years, a sum of Rs. 6,771,725,965 in between 1 to 3 years and a sum of Rs. 2,076,235 for less than 1 year. There was a balance payable to the Treasury amounted to Rs. 6,434,554,538 within these balances and actions had not been taken to settle those balances even by 20 June 2019.

2.2.6 Lack of Evidence for Audit

As the evidences shown against the following Items of Accounts had not been made available, those could not be satisfactorily vouched in audit.

Item of Account -----	Value -----	Evidences not Made Available -----
	Rs.	
(a) Unidentified Purchase of Paddy	63,980,963	} Detailed Information, Confirmations
(b) Purchase Control Account	49,743,530	
(c) Sale of Rice Millers on Credit	44,399,804	
(d) Driage Cost	92,694,994	} Approval on determining the applicable ratio
(e) Cooperative Wholesale Establishment	2,867,190,052	} Confirmation documents
(f) Lanka Sathosa	77,526,708	

3. Financial Review

3.1 Financial Results

According to Financial Statements presented, the operational loss of the Board for the year under review was Rs.462,105,320 and the corresponding loss of the preceding year was Rs.5,894,285,458 thus the decrease in the loss in the year under review was Rs.5,432,180,138. Even though the income had decreased by a sum of Rs. 1,698,947,915 as compared to the preceding year, the decrease in cost of sales and financial expenses by Rs. 6,942,293,834 and Rs. 195,631,290 respectively had mainly attributed to the decrease of the above loss.

In analyzing of the financial results for the year under review and 04 preceding years, the loss had increased continuously from the year 2013 to the year 2016 and decreased by a sum of Rs. 5,432,180,138 in the year 2017 as compared to the year 2016. However, in the re-adjustment of the employees' remuneration and the depreciation for the non-current assets to the financial result, the minus contribution amounted to Rs.5,824,719,237 of the Board in the year 2016 had decreased to a minus contribution amounted to Rs.364,810,785 or by 94 per cent by the year 2017 .

4. Operating Review
-----**4.1 Management Inefficiencies**

- (a) Only the details in relation to the year under review had been included in the Register of Fixed Assets prepared by the Board and the information such as the cost of each fixed assets, the date of acquired, additions made during the each years and the annual depreciation rate had not been consisted in that.
- (d) Twenty three Laptop Computers and 21 MS Office Software Packages purchased for the Computerized Stock Control System amounted to Rs. 2,139,500 had been retained in the stores in idle for more than 2 1/2 years.