

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16 (1) of the National Audit Act, No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

The scope of the audit also extended to examine as far as possible and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation.

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation.
- Whether the Institute has performed according to its powers, functions and duties, and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

| Audit Observation | Comments of the Management | Recommendation |
|--|--|--|
| (a) The Corporation had included a sum of Rs.178,357 in the financial statements as returns of cashew seeds, done by transactors for the year under review without credit notes. Moreover, the reason for the returning kernels of relevant cashew kernel products or definite and obvious reply on measures taken with regard to stocks received, had not been made available to Audit due to weaknesses in the internal control. | Activities on preparation of credit notes were not carried out. However, goods received notes on returns of cashew kernels have been prepared accurately and those stocks of cashew kernels have been taken over accurately and moreover, the value of those returns have been computed accurately and included in the financial statements. Further, credit notes will be prepared duly by paying special attention thereon and thereby, transactions on returns will be recorded in books of accounts. | Credit notes on returns and internal control thereon should be maintained. |
| (b) The manner of computing the closing stock value totalling Rs.32,455,294 could not be examined due to failure in establishing a methodology for computing the unit cost of raw cashews, cashew kernels and cashew plants and weaknesses in computing the production cost. | The relevant closing stock values have been computed based on the actual cost incurred for raw cashews, cashew kernels and cashew plants mentioned herein relating to the year under review and stocks have been valued by paying attention towards the net realized value of those stocks as at the relevant date. | A proper methodology for computing the production cost should be introduced. |

1.5.2 Non-compliance with Sri Lanka Accounting Standards

| Non-compliance with reference to the Relevant Standard | Comments of the Management | Recommendation |
|---|-----------------------------------|-----------------------|
|---|-----------------------------------|-----------------------|

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|-----|--|---|---|
| (a) | According to Section 38 of Sri Lanka Accounting Standard 1, comparative information in respect of the preceding period should be presented along with the annual financial statements. However, comparative information had not been included in the financial statements prepared and presented by the Corporation relating to the year under review. | As practical issues had arisen on presenting information in the financial statements of the year 2018 to compare with the financial statements of the year 2019 due to changes in relevant formats, the said requirement could not be fulfilled in a proper manner. However, action has been taken to present comparative information along with the financial statements of the year 2020 as well, which have been already prepared. | Action should be taken in terms of Sri Lanka Accounting Standard 1. |
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|-----|---|--|---|
| (b) | According to Section 139 of Sri Lanka Accounting Standard 19, provision for gratuity should be invested according to a defined benefit plan. However, no investments whatsoever had been made in relation to the balance of Rs.35,045,966 in the Provision for Gratuity Account as at the end of the year under review. | Recurrent grants received annually from the General Treasury to the Corporation, is inadequate for the payment of salaries of the staff. As such, there is no possibility of utilizing such recurrent grants for the payment of gratuity and as a result, earnings of the Corporation have to be utilized therefor. As there are other urgent and essential expenses to be incurred from earnings of the Corporation, there is no opportunity to make a separate investment for the payment of gratuity. | Investments should be made in respect of provisions for gratuity. |
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However, when the financial position of the Corporation reaches a favourable condition, action will be taken by paying full attention towards the creation of this investment plan.

1.5.3 Accounting Deficiencies

| | Audit Observation | Comments of the Management | Recommendation |
|-----|--|---|---|
| (a) | Accrued expenditure of Rs.186,453 relating to the year under review had not been identified and accounted in the financial statements. | Even though it had been mentioned that expenditure of Rs. 570,734 had not been included as accrued expenditure in the financial statements of the year 2019, a sum of Rs, 384,281 of the said value has been indicated in the financial statements as accrued expenditure in the year 2019. | Accrued expenditure relating to the year under review should be identified and accounted in the financial statements. |

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|--|---|--|
| <p>(b) Expenditure of Rs. 695,720 incurred for repairs of 02 motor vehicles had been debited to the Motor Vehicles Account and adjusted as depreciations, thus overstating the profit of the year under review by Rs. 604,876.</p> | <p>Expenditure of Rs. 695,720 incurred for repairs of motor vehicles mentioned herein, had been incurred for full engine repairs of those motor vehicles and as such, the useful life of the said motor vehicles had increased by a considerable number of years. As a result, action has been taken to capitalize the relevant expenditure.</p> | <p>It should be brought to account by considering as a recurrent expenditure.</p> |
| <p>(c) According to the physical verification carried out as at the end of the accounting year, the stock of cashew kernels processed in two cashew processing centres stood at 3,078 kg. However, closing stock value had been calculated using schedules containing values not equal to physical stock values with 839 kg of cashew with husks, not included in the stock verification report without considering the physical stock. As such, the closing stock and the profit of the year had been overstated by Rs.1,557,247.</p> | <p>When submitting reports on boards of survey, number of physical stocks of cashew kernels had been recorded erroneously and the closing stock of cashew kernels had been valued by considering number of physical stocks submitted by officers with full responsibility, in charge of processing centres. As such, the profit has not been overstated by Rs.1,557,247 in the financial statements as mentioned herein.</p> | <p>Physical verification registers should be prepared accurately and the value of closing stocks indicated therein should be recorded in the financial statements.</p> |
| <p>(d) According to the information on costs based for computing the closing stocks, made available to Audit by the Corporation in the year under review, a shortage of 820.740 kg of cashew kernels was observed between the stock to be held and the actual closing stock when considering the initial stock of cashew sales outlets, stocks received from processing centres, sales, and issuances free of charge and the value of the said shortage was Rs. 2,099,321.</p> | <p>When taking into consideration the manner of computing the difference of closing stocks, the accurate stock of cashew kernels in cashew sales outlets as at 01.01.2019 stood at 1,303.900 kg and it is a quantity of sales indicated in reports by the Marketing Division without using due source documents. Accordingly, the accurate quantity of sales should have been applied for the said computation. The number of stocks of cashew kernels returned from sales outlets during the year under review stood at 488.700 kg. As such, it cannot be agreed with the difference shown herein between the stock to be held and the actual closing stock of cashew kernels.</p> | <p>Registers maintained by the Finance and Marketing Division should be duly maintained and reconciled monthly.</p> |

1.5.4 Unreconciled Control Accounts or Records

| Item | Value as per | Value as per | Difference | Comments of the Management | Recommendation |
|---|----------------------|-------------------------------|------------|---|--|
| | Financial Statements | Reports of Marketing Division | | | |
| | Rs. | Rs. | Rs. | | |
| Sales income from Cashew of the Corporation | 82,767,073 | 79,425,899 | 3,341,174 | Action will be taken to issue necessary instructions to officers of the Marketing Division to record accurate information on sales income in their registers so as to tally with the information of the Finance Division using accurate source documents with a view to avoiding such problematic situations. | A system for confirming the reliability of information of Marketing and Finance Divisions, should be adhered to. |

1.5.5 Going Concern of the Corporation

| Audit Observation | | | | | | Comments of the Management | Recommendation |
|-------------------|--------------|-----------------------------------|---------------------------------|--|---|---|---|
| Year | Loss Rs. | Government Grants (Recurrent) Rs. | Government Grants (Capital) Rs. | Government Grants identified as income (Capital) Rs. | Loss except for the Government Grants Rs. | | |
| | 1 | 2 | 3 | 4 | 1-2-4 | | |
| 2015 | (47,728,042) | 66,100,000 | 35,000,000 31,950,000 | 31,186,501 | (145,014,543) | Sri Lanka Cashew Corporation is a public corporation which provides services to the cashew industry while running commercial activities as well. The key function is to develop cashew cultivation island wide and to undertake research activities relating to cashew industry. A personnel of nearly 60 per cent of the entire staff engage in aforesaid services and economic benefits reaped from their services are not financially valued and brought to account. | As the Corporation has reported a considerable amount of loss continuously, more attention should be paid towards the going concern of the Corporation. |
| 2016 | (36,525,411) | 48,000,000 | 40,000,000 | 31,181,987 | (115,707,398) | | |
| 2017 | (42,335,722) | 54,000,000 | 54,000,000 | 34,025,205 | (130,360,927) | | |
| 2018 | (39,642,728) | 50,000,000 | 66,520,000 | 35,263,122 | (124,905,850) | | |
| 2019 | (30,185,251) | 60,000,000 | 70,000,000 | 44,615,174 | (134,800,425) | About 85 per cent - 90 per cent of the recurrent grants received annually to the Corporation from the General Treasury, is incurred for the payment of salaries of the staff who engage in those activities. However, it | |

The Corporation had reported a considerable amount of loss continuously as follows during the period of 05 consecutive years, viz. from 2015 to 2019. The Corporation had functioned with a huge loss ranging from Rs.115 million to Rs.145 million during the period of 05 preceding years except for grants provided to the Corporation by the line Ministry. Accordingly, it was observed that the going concern of the Corporation has

become a challenge.

is impractical to interpret on the going concern of the Corporation by presenting an analysis as mentioned herein without paying attention on these matters.

1.5.6 Lack of Documentary Evidence for Audit

| Item | Amount Rs. | Audit Evidence not made available | Comments of the Management | Recommendation |
|--|---------------|--|--|--|
| (a) Payment of overtime, Expenditure payable including combined allowances and repairs of vehicles | 111,177 | Vouchers, Invoices | The value of Rs.111,177 payable, is not repaid again and as such, necessary action will be taken in the current year to eliminate the said value from books of accounts by making a prior year adjustment. | Documentary evidence for expenditure payable should be maintained. |
| (b) Payment of subsidies and crop insurances indicated under other payable expenses from a period of 06 preceding years. | 3,602,678 | Invoices | The Management had not commented. | Documentary evidence for expenditure payable should be maintained and made available to Audit as well. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation

It was observed that a sum of Rs.9,466,200 older than 07 years accounted as receivables for providing cashew plants to the Ministry of Economic Development under sundry debtors was irrecoverable due to non-existence of the said Ministry at present. However, provisions for bad and doubtful debts had not been made for the said loan balances.

Comments of the Management

Even though a great attempt is being made for a considerable period for the recovery of loan balances mentioned herein receivable from the Ministry of Economic Development, the said attempt has failed up to now. However, necessary action will be taken by enquiring into the possibility of making provision for bad and doubtful debts (Impairment Loss) for those loan balances from the current year taking into consideration the matters pointed out in the draft audit report.

Recommendation

Necessary measures should be taken to recover the balances receivable and provision for bad and doubtful debts should be made on the delay for the recovery of said balances.

1.6.2 Payables

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| Action had not been taken even by 24 November 2022 to settle a sum totalling Rs.817,934 of accrued expenses amounting to Rs.7,555,988 included in the financial statements as at the end of the year under review. | Action has been taken by now to settle more than 89 per cent of the accrued expenses of Rs.7,555,988 remaining as at 31.12.2019 and a delay has occurred regarding the settlement of accrued expenses of Rs.817,934 due to the financial difficulties of the Corporation. | Action should be taken to settle accrued expenses immediately. |

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

| Reference to Laws, Rules, Regulations, etc. | Non-compliance | Comments of the Management | Recommendation |
|--|--|--|---|
| (a) Inland Revenue Act, No.24 of 2017 | Action had not been taken to pay income tax and to send income tax returns since the year 2011. However, Withholding Tax of Rs.779,483 relating to the said periods had been included in the financial statements as a balance receivable. | Comments have not been made by the Management. | Correct adjustments relating to payment of arrears of income tax and Withholding Tax, should be included in the financial statements. |
| (b) Section 18 of the National Audit Act, No. 19 of 2018 | Even though audit fees should be settled within 30 days from the date mentioned in the invoice, the audit fees payable from the year 2005 to 2018 amounting to Rs.2,552,208 had not been settled even by the end of the year under review. | Comments have not been made by the Management. | Outstanding audit fees should be settled. |
| (c) Employees' Trust Fund Act, No.46 of 1980 | A sum of Rs.24,427 had to be paid as surcharge due to non-payment of relevant contributions on Employees' Trust Fund duly relating to the accounting year and non-submission of C Forms accurately. | Comments have not been made by the Management. | Contributions on Employees' Trust Fund should be duly paid and surcharge should be recovered from responsible officers. |
| (d) Public Enterprises Circular No. PED/12 of 02 June 2003 | The financial statements approved by the Board of Directors should be furnished to the Auditor | Comments have not been made by the Management. | Financial statements should be furnished in terms of circular instructions. |

General within 60 days after the closure of the accounting year. However, the final accounts relating to the year 2019 had been furnished to the Auditor General on 07 February 2022 with a delay of 02 years and 08 months.

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| (e) | Decisions dated 24 July 2012 of the Committee on Public Enterprises | The Committee on Public Enterprises had notified the Corporation to take over the legal ownership of lands. However, the activities relating to the takeover of the legal ownership of land of cashew cultivation of 11,239 acres in extent provided by the Divisional Secretariats and the Land Reform Commission, had not been finalized even up to the date of this report. | The activities relating to the takeover of the legal ownership of these lands are carried out continuously together with the Ministry in charge of the subject and a considerable period will be taken to complete those processes. | The legal ownership of lands should be taken over to the Corporation as per the relevant decision of the Committee. |
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1.8 Financial Management

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| <p>A sum of Rs.70,000,000 had been received in cash as Government capital grants to the Corporation during the year under review and only a sum of Rs.10,301,285 of that had been capitalized under cashew and coconut cultivations. A sum of Rs.25,839,693 which is more than twice the value capitalized from Government capital grants, had been spent as recurrent expenditure. Accordingly, the remaining sum of Rs.33,859,022 should be available in the Capital Grants Current Account. However, it was observed that the balance of the said account as at the end of the year under review was Rs.504,140. As such, it was further observed that the capital grants have been utilized for other external purposes.</p> | <p>Comments have not been made by the Management.</p> | <p>Government capital grants should be utilized and capitalized only for the specific purpose mentioned.</p> |

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a loss of Rs.30,185,251 as compared with the corresponding loss of Rs.39,642,728 of the preceding year, thus observing a decrease in the loss by Rs.9,457,477 in the financial result. The increase in Government recurrent grants had mainly attributed to this decrease in loss.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| (a) Even though a sum of Rs.3,214,226 had been spent under capital grants for the Puttalam and Kamandaluwa Research Centers in the year under review, no new research whatsoever had been commenced during the year under review and only 08 ongoing researches were been carried out from prior years at both centers. Further, progress reports had not been maintained continuously and properly so as to evaluate the progress of the researches. | As cashew is a perennial crop, relevant research activities should be carried out continuously over several years to obtain the final outcome of all related research activities carried out. A progress report is submitted monthly at the meeting of the Board of Directors through the Research Division of the Head Office on the progress of research programmes and furthermore, matters relating to the progress of relevant research activities and revisions and updates thereon are also discussed at the research and management committee meetings of the Corporation held quarterly, headed by a Professor of the Faculty of Plantation Management of the Wayamba University. | Commencement of new research, expeditious completion of research activities commenced should be carried out while reports should be maintained so as to evaluate the progress of research activities. |
| (b) A number of 24,159 bud cashew plants and 9,831 seed cashew plants produced incurring costs of Rs.49.45 and Rs.36.23 per plant respectively had to be discarded as dead plants due to failure in proper supervising and maintaining the cashew plant production process, thus resulting in a loss of Rs.1,550,840 to the Corporation. | According to standards, when producing bud cashew plants in commercial cashew plant nurseries, the maximum percentage permitted for bud failure is 20 per cent. The total number of bud cashew plants produced in the year under review is 304,317 and the number of failed and dead bud cashew plants was 24,159. It | The cashew plant production process should be properly supervised and maintained. |

was a permitted percentage of approximately 8 per cent. The sales price of bud cashew plants has been decided so as to cover the said average wastage.

Moreover, the maximum percentage permitted for dead plants in the production of seed cashew plants is 5 per cent. As compared with the total number of seed plants of 136,409 produced during the year under review, the number of 9,831 dead seed plants mentioned herein, stands at approximately 7 per cent. As such, the percentage of dead plants not permitted is approximately 2 per cent and in consideration of the production cost of the year under review, the loss occurred to the Corporation on the unusual wastage amounts to approximately Rs.109,072.

- (c) The land in extent of 250 acres provided to the Cashew Corporation from the Oyamaduwa Farm belonging to the National Livestock Development Board, had been vested again in the National Livestock Development Board and the possession of the land of 441 acres in extent on which the Martin Ipil Ipil Farm is located in Eluwankulama, had been handed over to the Sri Lanka Cashew Corporation on 01 August 2019. The following matters were observed during the examination held in that regard.
- (i) It had been notified by the letter No.WAN/LND/01/LTLES/(3) 24 of 29 November 2019 that necessary arrangements are being made by the Wanathawilluwa Divisional Secretary for leasing out the land with the Martin Ipil

Comments have not been made by the Management. The long term lease agreement should be entered into before commencing development activities.

Ipil Farm located in Eluwankulama on long term basis to the Sri Lanka Cashew Corporation and to avoid any development activity on the said land until lease approval is granted for the said block of land. Nevertheless, an agreement had been entered into with a contractor on 09 August 2019 for a value of Rs.785,000 for clearing and preparing the ground of a block of land of 50 acres in extent and works of about 08 acres had been completed.

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| (ii) | In line with the Deyata Kirula National Development Programme held in the year 2011, the Cashew Corporation had been provided with a land of 100 acres from the Oyamaduwa area to establish a plant breeding centre and subsequently, 150 more acres had been provided in the years 2012 and 2013. The Cashew Corporation had incurred an expenditure of Rs.14,480,914 for development of cashew and coconut cultivation and construction of buildings on the aforesaid land. Subsequently, a land of 441 acres in extent of the Eluwankulama Martin Ipil Ipil Farm in the Wanathawilluwa Divisional Secretariat has been provided to the Cashew Corporation and the land developed with cashew and coconut in Oyamaduwa has been provided to the National Livestock Development Board. As such, the aforesaid cost incurred by the Corporation had become an uneconomic expenditure. | Comments have not been made by the Management. | Expenditure incurred on cultivations are investments and agreements should be made before investing so as to gain benefits from the said expenditure. |
| (iii) | The cashew yield from the Oyamaduwa Estate was 1,344.5 kilogrammes for the year 2019 and with the exchange of land located in Eluwankulama, the cashew yield of the Oyamaduwa Estate | Comments have not been made by the Management. | Expenditure incurred on cultivations are investments and agreements should be made before |

due to be received in the ensuing years, had been lost to the Corporation.

investing so as to gain benefits from the said expenditure.

- (iv) Approval of the Board of Directors had been granted to develop the Eluwankulama land exchanged with the intention of issuing new varieties of cashew and carrying out comparative evaluations, in close proximity to the Sri Lanka Cashew Corporation Seed Garden, Eluwankulama, as Stage II with 50 acres of cashew cultivation in the year 2019, utilizing a capital of Rs.6.7 million. Nevertheless, the said target had not been achieved.
- Development activities of the Eluwankulama Martin Ipil Ipil Farm were commenced as mentioned herein, with the intention of gaining quick benefits to the Corporation through new cashew cultivation and new cashew cultivation has been completed on a block of land of 35 acres in extent.
- Steps should be taken to achieve development targets.