

Paddy Marketing Board - 2019

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Paddy Marketing Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

I do not express an opinion on the financial statements of the Board. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based 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 disclaimer of 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 determines 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 Board'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 intends liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Board 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 Board.

1.4 Scope of Audit (Auditor's Responsibilities 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 scepticism 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, 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 Board'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 Board'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 Board 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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 Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to Relevant Standard	Comments of the Management	Recommendation
<p>(a) Sri Lanka Accounting Standard 16</p> <p>-----</p> <p>In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the residual value and useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, action had not been taken accordingly in respect of assets costing Rs.7,097,050 which were fully depreciated as at 31 December 2019 but still being used.</p>	<p>Comments had not been made.</p>	<p>Action should be taken in terms of Sri Lanka Accounting Standards.</p>
<p>(b) Sri Lanka Accounting Standard 20</p> <p>-----</p> <p>In terms of Sri Lanka Accounting Standard 20, action should be taken to recognize an amount equivalent to the annual depreciated value from assets purchased from Government capital grants, as the deferred income and to eliminate from capital grants. Even though the depreciation for assets purchased from Government capital grants of the year under review of the Authority, had been Rs.74,204,650, a sum of Rs.143,119,242 had been brought</p>	<p>Comments had not been made.</p>	<p>Action should be taken in terms of Sri Lanka Accounting Standards.</p>

to account as a deferred income exceeding the said amount, thus overstating the income of the year by Rs.68,914,592 in the Income and Expenditure Account.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the Ledger Account, payments made in cash for acquisition of lands and buildings of the year under review had been Rs.384,902. However, it had been indicated as Rs.100,901,194 under investing activities in the cash flow statement, overstating by Rs.100,516,292.	Comments had not been made.	The cash flow statement should be prepared on cash basis.
(b) Even though payments made in cash for acquisition of wooden furniture and equipment of the year under review had been Rs.2,801,938, it had been indicated as Rs.3,358,274 in the cash flow statement.	Comments had not been made.	The cash flow statement should be prepared on cash basis.
(c) Even though payments made in cash for acquisition of other equipment had been Rs.1,490,787, it had been indicated as Rs.1,606,075, in the cash flow statement, overstating by Rs. 115,288.	Comments had not been made.	The cash flow statement should be prepared on cash basis.
(d) Even though payments made in cash in the Work-in-Progress Account had been Rs.4,414,833, it had been indicated as Rs.7,326,903 in the cash flow statement, overstating by Rs.2,912,070.	Comments had not been made.	The cash flow statement should be prepared on cash basis.
(e) Action had not been taken to recognize and account the balance of Rs.3,049,830,238 in the Suspense Account, brought forward for a long period and online stocks of Rs.2,234,953 brought forward since the year 2018.	Comments had not been made.	It should be brought to account accurately.
(f) Even though sums of Rs. 700,000 from Palmyrah Development Board and Rs.10,591,838 from Food Commissioner's Department and Rs. 77,526,708 from the Cooperative Wholesale Establishment had been mentioned as payables, those institutions	Comments had not been made.	Confirmation of balances of annual debtors should be obtained and action should be taken to make relevant rectifications by

had informed in writing that there were no such payables. However, it had been indicated as debtors in the statement of financial position.

reconciling with accounts.

- (g) According to confirmation of balances of the Cooperative Wholesale Establishment, the value receivable from Cooperative Wholesale Establishment was Rs.1,070,666,192. However, the value of receivables had been indicated in the statement of financial position as Rs.1,392,190,102, overstating by Rs.321,523,910.
- Comments had not been made. There should be confirmation of balances to the value indicated in accounts.

1.5.3 Going Concern of the Organization

Audit Observation	Comments of the Management	Recommendation
<p>(a) Stocks of paddy purchased by the Board had been sold at a price less than the market price and its cost. As such, action had been taken to obtain credit facilities from the General Treasury and state banks annually for raising necessary funds to purchase paddy in the next season and to settle losses occurred by selling paddy. Out of loans and advances obtained from 03 state banks for the purchase of paddy and operating expenses from the year 2009 to the year 2014, accumulated payables and accumulated interest thereon by 31 December 2019 had been Rs.18,104 million and Rs.1,646 million respectively.</p>	<p>Comments had not been made.</p>	<p>Attention should be drawn towards the going concern of the Board.</p>
<p>(b) In considering the value of net assets of the year under review and three preceding years, the negative value of the year 2016 which was Rs. 12,060,577,822 had increased up to the negative value of Rs.14,179,929,345 in the year under review and the net current assets as at 31 December of the year under review had been a negative value of Rs. 3,548,270,058. It had adversely affect the going concern of the Board and as such, it was observed that the Board is not financially strengthened to settle these liabilities without financial assistance of the Government.</p>	<p>Comments had not been made.</p>	<p>Attention should be drawn towards the going concern of the Board.</p>

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not made available	Comments of the Management	Recommendation
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	Rs.			
Debtors Balance				
Selling of paddy - Ministry	32,688,410	Confirmation of Balances	Comments had not been made.	Documentary evidence required to confirm values of Items of Accounts, should be maintained.
Exportation of Rice - Ministry	264,154,465			
North – Sea	1,000,000			
Receivable from Millers	65,501,226			
Receivable from Ampara D/S – WFP	2,458,086			
Receivable from Hambanthota D/S –WFP	18,351,743	Schedules		
Rice Millers Exportations	208,313,337	Detailed Schedules	Comments had not been made.	Documentary evidence required to confirm values of Items of Accounts should be
Rice Millers (Sales of paddy on credit basis)	44,399,804			
Rice Millers (CWE & WF – 2016)	8,027,716			
Purchase Control Account	49,743,530			

Purchase of unidentified Paddy	70,818,163		maintained.
Suspense Account (Purchase of Paddy)	18,574,188		
Lands and Buildings Ledger -----		Detailed documents relating to elimination	
Lands and Buildings	2,203,388		
Adjustment of Lands and Buildings	3,705,253	Detailed schedules	
Transfer of advances to the Lands and Buildings Account	17,448,220	Certificates of completion of works	
Transfer of money paid to the G.A. to the Lands and Buildings Account	10,731,138	Certificates of completion of works, details on fixed assets	
Debiting moneys to the Lands Buildings Account as the balance	384,902	Details relating to fixed assets	
Transfer from the Work-in-Progress Account to the Lands Buildings Account	24,258,992	Details on fixed assets, Engineer's certificate of completion	Comments had not been made. Documentary evidence required to confirm values of Items of Accounts should be

Eliminating from the Lands Buildings Account as G.A constructions	1,341,833	Details relating to eliminations	maintained.
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Fixed Assets Register

----- Consumable Items	1,268,312	Detailed stock records
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Opening balance of Fixed Assets	1,192,568,504	Fixed Assets Register in which fixed assets were recorded by identifying separately	Comments had not been made.	Documentary evidence required to confirm values of items of accounts should be maintained.
Purchase of fixed assets of the year	106,253,556			

Depreciation of the year	74,204,650	Detailed schedules
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1.6 Receivables and Payables

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The debtors balance of Rs. 2,675,916,872 had included balances of Rs. 1,917,478,534 older than 05 years, Rs. 28,837,545 between 03 and 05 years and Rs. 729,600,799 between 01 and 05 years as at 31 December 2019.	Comments had not been made.	Action should be taken to recover debtors balances.

1.6.2 Payables

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
The creditors balance of Rs. 7,091,809,148 had included balances of Rs. 6,717,087,405 older than 04 years, Rs. 6,581,534 between 03 and 04 years, Rs. 368,140,210 between 01 and 03 years and Rs. 71,092,220 less than 01 year as at 31 December 2019. Moreover, these balances had included a balance of Rs. 6,684,554,538 as well payable to the Treasury and action had not been taken to settle them even up to now.	Comments had not been made.	Action should be taken to settle old balances.

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) Guideline 2.1.4.1 of Procurement Guidelines - 2006	Procurements exceeding Rs. 100 million should be carried out by the Ministry Appointed Procurement Committee. Nevertheless, procurement for purchase of poly sack bags valued at Rs.102.9 million had been carried out by the Department Appointed Procurement Committee.	Comments had not been made.	Action should be taken to follow Procurement Guidelines.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003	Annual Reports relating to years 2016, 2017, 2018 and 2019 had not been tabled in Parliament even by the date of audit.	Comments had not been made.	Annual Reports should be tabled in Parliament within the due period.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a loss of Rs. 741,663,275 as compared with the corresponding loss of Rs. 1,185,101,723 of the preceding year, thus observing an improvement of Rs.443,438,448 in the financial result. The increase in other income by Rs. 4,786,907 and decrease in financial expenditure by Rs. 387,846,642 and in other expenditure by Rs. 10,757,046 in the year under review as compared with the preceding year had mainly attributed to the said improvement.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Recoveries should have been made from 54 officers who are responsible for stock shortages valued at Rs. 13,074,157 after writing off of 3,597,203 kg of paddy for natural damages, out of the stock shortage of 4,132,994 kg of paddy, identified at the stock verification carried out in the year 2014 by the Board. Out of the said balance, a sum of Rs.6,106,113 had been recovered by the Board and a shortage valued at Rs. 6,968,078 should have been recovered further from 17 officers even by 25 January 2021, the date of audit. Two out of those officers had been interdicted and legal action had not been taken even up to now by the Board to recover shortages totalling Rs. 4,245,954 from them.	It was observed at the stock verification carried out in the year 2014 by the Paddy Marketing Board that stock shortages should have been recovered from 54 officers and further, a sum of Rs. 6,833,300 should have been recovered from 16 officers by 29 March 2021.	Expedite measures should be taken to recover relevant values from persons responsible for the stock shortage.
(b)	The shortage of paddy identified at the stock verification carried out in the year 2018, stood at 16,068,715 kg and it was revealed that there were 125 officers who had performed as the In Charge of stocks relating to the said shortage. Even though nearly 02 ½ years had lapsed after carrying out the stock verification even by the date of audit, the Board had not recovered relevant shortages.	Action is being taken to expedite the recoveries by computing surcharges relating to stock shortages of those officers and forwarding it to the Board of Directors.	Action should be taken to recover the relevant shortage expeditiously.
(c)	In carrying out procurements for the purchase of 2,000,000 poly sack bags required for packing paddy purchased during the Yala Season of the year 2018, a number of remaining 860,776 poly sack bags in zonal stores existed by then had not been taken into consideration. Out of 2,000,000 poly sack bags purchased by spending Rs. 102,900,000, a number of 1,482,606 poly sack bags had remained in zonal stores even by the end of the year under review and the sum payable further to the relevant institution amounted to Rs. 42,016,643.	Comments had not been made.	Action should be taken to make purchases only as per the requirement by paying attention towards existing stocks.

3.2 Operating Inefficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) A number of 11,210 kg of rice sold on 30 May 2019 to the National Food Promotion Board had been rejected due to non-compliance with relevant specifications. However, the said stock of rice had been stored in the Marandagahamula Stores belonging to the Board. A report on the said rice in stores had been issued to the Board on 07 May 2019 by the Food Commissioner. According to that report, it had been informed that this stock of rice is not suitable for human consumption, thus resulting in a loss of Rs. 837,450 which is the cost of the said stock.</p>	<p>Comments had not been made.</p>	<p>Action should be taken according to a proper procedure in storing and selling of rice and further action should be taken to examine whether the process of storing of rice is in compliance with prescribed specifications.</p>
<p>(b) A number of 102,376 poly sack bags valued at Rs.1,401,735 out of poly sack bags purchased for the rice project implemented by the Board in the year under review, had remained idle even by the date of Audit due to failure in executing the said project. Moreover, 02 barcode machines and other equipment required therefor had been purchased by spending Rs.93,063 to print prices and dates of expiry on those bags and those machines as well had remained idle.</p>	<p>At the commencement of this project, the Chairman of the Paddy Marketing Board had resigned and subsequently, the new Chairman had not proceeded with the said project.</p>	<p>Action should be taken to make purchases only as per the requirement.</p>