

Sri Lanka Cashew Corporation - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2020, and of its financial performance and its 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 Audit Scope

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, 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 Corporation 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 Corporation 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 Issue	Management Comment	Recommendation
(a) The Corporation had not maintained printed credit notes (with serial numbers) or documents for returns of cashew nuts sold. During the year under review, two letters mentioned as credit notes had been issued and accepted for a stock of cashew worth Rs.1,058,542 which were sent to the corporation by one of the clients. The conditions under which sales returns are accepted and the reasons for such returns were not stated.	Comments have not been made by the Management.	Printed credit notes with serial numbers should be used.
(b) The manner of computing the closing stock value totalling Rs.58,041,012 could not be examined due to failure in establishing a methodology for computing the unit cost of raw cashews, cashew kernels and cashew plants.	Comments have not been made by the Management.	A proper methodology for computing the production cost should be introduced.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to Section 38 of Sri Lanka Accounting Standards 01, comparative information had not been presented for the information shown in Note No. 07 in relation to the net value of property, plant and equipment amounting to Rs.82,027,363 in the financial statements.	Comments have not been made by the Management.	Comparative information should be presented for items disclosed in the notes in the financial statements.
(b) According to paragraph 36 of Sri Lanka Accounting Standard 02, the Corporation had not disclosed the accounting policy used in measuring the stock including the cost formula used in relation to the stock.	Comments have not been made by the Management.	It should be done according to the Sri Lanka Accounting Standard.

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| (c) | According to Sri Lanka Accounting Standards 12, Deferred tax had not been recognized in the financial statements. | Comments have not been made by the Management. | It should be done according to the Sri Lanka Accounting Standard. |
| (d) | As per paragraph 57(c) of Sri Lanka Accounting Standards 19, Current service cost and net interest on the net defined benefit liability shall be recognized in profit or loss and values shall be recognized based on the values calculated in the valuation report. A difference of Rs.4,166,215 was observed between value identified as gratuity provision in the financial statements relating to the year under review and value of actuarial valuation report. | Comments have not been made by the Management. | It should be done according to the Sri Lanka Accounting Standard. |
| (e) | As per paragraph 57(d) of Sri Lanka Accounting Standards 19, it was observed that the actuarial loss of Rs.4,068,410 which should be recognized under other comprehensive income had been recognized in the statement of profit and loss. | Comments have not been made by the Management. | It should be done according to the Sri Lanka Accounting Standard. |
| (f) | 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.38,953,602 in the Provision for Gratuity Account as at the end of the year under review. | Comments have not been made by the Management. | A formal investment plan should be made as per Sri Lanka Accounting Standards. |

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Expenditure of Rs. 862,450 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. 713,556.	Since the cost of Rs.862,450 was engine repair of the motor vehicles, the useful life had increased by a significant number of years. So the related costs have been capitalized.	It should be brought to account by considering as a recurrent expenditure.

- (b) When the preparation of the financial statements of the year under review, it was observed that the depreciation cost of Rs.138,754 has been reduced from profit of the year due to capitalization of expense of Rs.693,770 incurred in the year of 2019 for repairing of two motor vehicles of the Corporation.
- Capitalization of motor vehicles repair cost of Rs.693,770 was done because the said cost was incurred for full engine repairs of those motor vehicles. Accordingly, there has not been decreased in profit by a value of Rs.138,754 as mentioned here.
- It should be brought to account by considering as a recurrent expenditure.

1.5.4 Going Concern of the Corporation

Audit Issue	Management Comment	Recommendation
During the period of 05 preceding years, viz. from 2016 to 2020, the visual loss except for government grants in the financial statements of the Corporation was the range from Rs.134 Mn to Rs.102 Mn as follows. Accordingly, it was observed that the going concern of the Corporation has become a challenge.	Comments have not been made by the Management.	The corporation should be brought to profitability without delay.

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	
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)
2020	(10,885,647)	60,000,000	84,650,000	31,426,876	(102,312,533)

1.5.5 Lack of Documentary Evidence for Audit

Item available	Amount Rs.	Evidence not	Management Comment	Recommendation
(a) Payment of subsidies and crop insurances indicated under other payable expenses from a period of 07 preceding years, no written certificate which could be verified had not been submitted to the audit and an amount of	3,602,678	Applications related to payment of subsidies and crop insurances	Comments have not been made by the Management.	Documentary evidence for expenditure should be maintained.

Rs.2,760,587 from that balance had been deducted from the accumulated loss in the statement of changes in equity during the year under review.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Although 08 years were passed for providing cashew plants worth Rs.9,466,200 to the Ministry of Economic Development which existed at that time, the recovery of that debtor balance accounted as sundry debtors is uncertain as the relevant ministry is currently closed and it was observed that provisions for bad and doubtful debts had not been made for the said debtor balances.	Comments have not been made by the Management.	Action should be taken to recover the balances receivable. Provision for bad and doubtful debts should be made.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Action had not been taken to pay the loan amount of Rs.3,500,000 which was greater than 07 years and the related interest amounting to Rs.927,500 to Paddy Marketing Board in the year under review.	Comments have not been made by the Management.	The loan amount and interest should be settled.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Management Comment	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.

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| (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 fee related to the period from the year 2005 to 2019 amounting to Rs.2,189,211 was not settled. | Comments have not been made by the Management. | Outstanding audit fees should be settled. |
| (c) | 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 11,363 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. | Comments have not been made by the Management. | The legal ownership of lands should be taken over to the Corporation as per the relevant decision of the Committee. |
| (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 General within 60 days after the closure of the accounting year. However, the final accounts relating to the year 2020 had been furnished to the Auditor General on 31 January 2023 with a delay of 01 year and 10 months. | Comments have not been made by the Management. | Financial statements should be furnished in terms of circular instructions. |

1.8 Cash Management

Audit Issue

A sum of Rs.84,650,000 had been received as Government capital grants to the Corporation during the year under review and only a sum of Rs.23,022,359 of that had been capitalized under cashew and coconut cultivations. A sum of Rs.23,594,880 which is close to that capitalized value had been spent as recurrent expenditure. Although an amount

Management Comment

Comments have not been made by the Management.

Recommendation

Government capital grants should be utilized only for the specific purpose mentioned.

of Rs.38,032,761 should have remained at the end of the year, but the existing balance in the account on that day was Rs.4,045,075. Accordingly, it was observed that Rs. 33,987,686 of the capital grants were spent on other activities.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs. 10,885,647 and the corresponding loss in the preceding year amounted to Rs. 30,185,251. Therefore, an improvement amounting to Rs. 19,299,604 of the financial result was observed. The reasons for the improvement are the decrease in other expenses.

3. Operating Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Even though a sum of Rs.4,000,000 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 research were carried out from prior years at both centers. Further, progress reports had not been maintained continuously and properly to evaluate the progress of the research.	Comments have not been made by the Management.	Commencement of new research, completion of research activities commenced should be carried out and records of research progress should be maintained.
(b)	It was observed that the procurement of polythene bags required for nursery activities was planned correctly and the suppliers were not given enough time to submit the prices. The prices were called twice for the relevant procurement and the procurement of Rs. 2,393,610 was awarded to the suppliers who did not submit the correct samples.	Sealed price bids were invited for the purchase of polythene bags required for cashew plant nurseries in the year 2020 and due to the Corona pandemic situation, a limited number of days were given for the submission of price bids. A single price bid was received during the first price bidding and accordingly, it is not acceptable to state that a bidder has been formally selected and awarded the procurement after receiving 06 price bids and submitting the samples of the polythene bags provided by them	Procurement should be done transparently.

with their price bids to a Technical Evaluation Committee in the second time of calling for price bids after only a limited number of days were again given to carry out a price comparison.

- (c) According to the age analysis of the debtors whose value is Rs.6,747,974, there were Rs.2,092,275 as the debtor balance for more than 90 days and Rs.485,512 as the debtor balance for the period between 61-90 days, but no formal actions were taken to recover them. Comments have not been made by the Management. Taking formal action to recover outstanding balances.
- (d) 100,000 bud cashew plants were produced and distributed through the Cashew Export Villages Project. During the random saplings survey conducted in the selected divisional secretaries of the Northern Province and Anuradhapura district in this regard, 30 percent of the saplings planted in Anuradhapura district, 34.5 percent in Vavuniya district, 04 percent in Mullaitivu district and 63 percent in Kilinochchi district had failed. 1,560 plants had failed only in the limited areas surveyed, and the value was Rs.390,000. It was observed that it is a very high value considering the percentage of 6 percent which is the average waste in planting. Comments have not been made by the Management. The project of Establishing Cashew Export Villages should be properly monitored.