

Transaction Report of the Paddy Marketing Board - 2021

The audit on the operating activities of the Paddy Marketing Board for the year ended 31 December 2021 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 Act, No.14 of 1971. My observations relating to the activities of the Board of the year under review only which I consider should be reported to Parliament in terms of the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Management and Those Charged with Governance for the Financial Statements

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. As per Sub-section 16(2) of that Act, the annual financial statements in respect of every other auditee entity, shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports, within such period as may be provided by rules. As per Sub section 38 (1) (d) of the Act, it should be ensured that the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity

1.3 Presentation of Financial Statements

Even though the Financial Statements and the Draft Annual Report should be furnished to the Auditor General within 60 days after the close of the Accounting Year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Financial Statements relating to the year 2021 had not been furnished to Audit even by the date of this report.

2. Audit Observations

2.1 Assets, liabilities, Revenue and Expenditure

Particulars related to assets, liabilities, revenue and expenditure mentioned in the financial statements as at 31 December 2019 prepared last by the Board, are mentioned below.

Financial Statement Item	Value
<u>Assets</u>	Rs.
Non-current assets	1,569,049,227
Current assets	6,501,271,386
Total assets	<u>8,070,320,613</u>
<u>Equity and liability</u>	
Equity	(14,179,929,345)
<u>Liabilities</u>	

Current liabilities	10,049,541,444
Non-current liabilities	12,200,708,514
Total liabilities	(22,250,249,958)

Total liabilities /equities	<u>8,070,320,613</u>
Total revenue	396,551,485
Total expenditure	1,281,334,002

Deficit	<u>884,782,517</u>

2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following are the instances of non-complying with laws, rules and regulations.

Reference to Laws, Rules and Non-compliance Regulations

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| (a) | 257 and 139 (8, 10) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | All vouchers should be certified before they are presented for payment to a Paying Officer. Although It is the duty of Paying Officer to see that every payment is noted in relevant documents and accounted and the balance of the Cash Book is tallied with the bank statement in terms of and however, it hasn't been so done. |
| (b) | Financial Regulation 395 | Although every entity that has a bank account should prepare before 15 of the following month, a bank reconciliation statement on the given transactions as at the end of each month, the Board had not prepared bank reconciliation statements from 2020. |

2.3 Control of Advance

The following observations are made.

- (a) According to the Advance Register of the Board, Advance amounting to Rs. 1,059,115 out of the Advance amounts given from the year 2016 to 2022, had not been settled as at 13 September 2022. And in it included a sum of Rs.60,000 prevailing from 2016 and a balance of Rs. 611,415 prevailing from 2017 to 2021.
- (b) Although the Advance obtained for duty purposes through the internal memo No PMB/F1/14/2015 dated 22 April 2015 issued by the Board, should be settled within 07 days from the date of obtaining of such Advance, it had not been so done in respect of the above Advance.

3. Operating Review

3.1 Management Inefficiencies

- (a) 19 officers holding various positions of the Paddy Marketing Board had been sent on compulsory leave and dismissed from service on disciplinary ground during the period from 2015 to 2021. Although a time period from 01 to 07 years had elapsed since such inquiries were started in that regard, they had not been concluded. The following facts were revealed at the further inquiries made in that regard.
- (i) Due to the malpractices of the Deputy General Manager the loss sustained by the Board amounted to Rs. 312,662,925 and as a result he had been dismissed from service on 20 March 2015 and there were 77 charges against him. Although 7 years had elapsed from 2015 to August 2022, action had not been taken to complete the inquiries and take steps to recover the loss caused to the Board.
 - (ii) Deputy General Manager of operations who had 14 charges against him had been sent on compulsory leave on 08 May 2019 for causing a loss of Rs. 112,500,000 to the Paddy Marketing Board and although the Deputy General Manager was reinstated in service on 07 January 2020, he had been sent on compulsory leave again on 25 January 2021. However, no action had been taken to conduct an inquiry up to the date of audit.
 - (iii) Following three officers being sent on compulsory leave, inquiries were conducted while salaries being paid and as a result a sum of Rs. 7,306,327 had been paid as salaries due to inquiries which had been going on for more than 02 years had not been completed expeditiously.
 - (iv) Although accusations had been levelled against two officers regarding the shortage of paddy stocks revealed at the paddy stock survey, those officers are still serving and their preliminary inquiries had not been concluded even at the day of audit falling on 10 October 2022.
 - (v) Although a sum of Rs. 41,749,524 had been mentioned as the sum to be recovered to the Board from five officers against whom disciplinary action had been completed following the conduct of a disciplinary inquiry.
 - (vi) Although disciplinary inquiries should be completed as expeditiously as possible as per the Public Administration Circular No 30/2019, disciplinary inquiries to be conducted against 19 officers had come to a grinding halt by 06 September 2022 and action had not been taken to restart those disciplinary inquiries.
- (b) Only 03 vehicles out of 13 vehicles belonging to the Paddy Marketing Board were in roadworthy condition and action had not been taken as per the chapter (b) of the Assets Management Circular No 05/2020 dated 02 October 2020 in respect of 04 of the 10 vehicles that were not in roadworthy condition, although they had been parked in various places for 02 years pending renovation. Further, as per the chapter (a) of the above

circular, action had not been taken to dispose of the dilapidated vehicles which cannot be used anymore.

3.2 Operating Inefficiencies

The following observations are made.

- (a) The Paddy Marketing Board had obtained loans amounting to Rs. 4780 million from the Bank of Ceylon, Peoples Bank and Regional Development Bank under the paddy purchasing programme 2019/2020. District Secretaries had, using this money, purchased paddy via small scale rice mill owners while the Board itself purchasing paddy. A sum of Rs. 1,897,000,000 had been given to the District Secretaries to purchase paddy while a sum of Rs. 3,462,525 had been given as operational expenditure and the following facts were observed when inquiries were conducted in that regard.

- (i) In respect of money given to District Secretaries, consensus had not been reached regarding an agreement in regard or regarding conditions to settle the loan as expeditiously as possible. Accordingly, the management had not prepared a mechanism to settle the loan as expeditiously as possible with the money received by selling and to get the profits to the Board itself in the instances where sold price is higher than the purchased price. However, the profits made through the money given only to 05 District Secretaries by selling at a higher price than the purchased price, the amount of which stood at Rs.20, 671,012, had been credited to the Board.

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- (ii) Of the amount given to 16 District Secretaries of 16 Districts for purchasing paddy, only 69 per cent had been utilized and the remaining 31 per cent or Rs.592, 170,678 had been returned. The interest on the loan the Board had to pay to the bank due to the delay from 2 ½ to 08 month of sending that money amounted to Rs.10, 695,492. It was observed at the audit that the interest that has to be paid on the loan obtained on interest is a fruitless expenditure due to loan amounts not being utilized properly owing to the absence of a proper plan.

- (b) The loan obtained by the Board for purchasing paddy of the 2019/20 Maha Season stood at Rs. 4,780,000,000. A sum of Rs.4,020,915,545 had been settled as at 14 September 2022 and the interest that had to be paid stood at Rs.381,758,768 since the loan being settled over a period of 02 years. It was a 9.49 per cent of the loan. However, a sum of Rs.759,084,455 of the loan remained to be paid even by 10 September 2022 and interest thereon to be paid as at 14 September 2022 stood at Rs.31,112,064 and the fine to be paid to the bank owing to the delay in paying the interest stood at Rs,923,076.

3.3 Idle or under-utilized Assets.

The following observations are made.

- (a) Only 35 paddy stores had been renovated incurring only Rs.35.5 million out of the sum amounting to Rs.175 million allocated for renovating and improving paddy stores as per the Procurement Plan – 2021. Only 07 stores out of the renovated stores had been utilized and although their capacity stood at 7100 metric tons, 92 per cent of that capacity had been underutilized due to only 561 metric tons being stored.
- (b) The total storing capacity under the charge of the Paddy Marketing Board stood at 317,530 metric tons and although the amount of paddy expected to purchase from the 2020/21 Maha Season stood at 300,000 metric tons and due to the purchased amount stood at 45,124 metric tons, only 14 per cent of the storing capacity had been utilized.
- (c) The amount of paddy expected to purchase of the 2021 Yala Season stood at 50,000 metric tons and only 2.4 per cent of the storing capacity had been utilized since only 7,728 metric tons had been purchased.