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இலங்கை மரமந்திரிகை கூட்டத்தாபனம்

SRI LANKA CASHEW CORPORATION



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வருடாந்த கணக்கும் அறிக்கையம்
ANNUAL REPORT AND ACCOUNTS

2010





SRI LANKA CASHEW CORPORATION

ANNUAL REPORT AND ACCOUNTS

2010

Sri Lanka Cashew Corporation

Annual Report – 2010

The Vision, Mission, Goals & Objectives of the Corporation

VISION

- To become one of the leading and the best quality cashew producer and the exporter in the world.

MISSION

- To develop the cashew industry towards a long term commercial viability by providing professional guidance to farmers and to develop cashew cultivation, production, processing technology, value addition, research and market promotion.

GOALS

- Expand cultivation & increase yield.
- Increase productivity in the Plantation & Processing industry.
- Establish a globally accepted Brand Image for Sri Lankan Cashew.
- Value addition and new product development.
- Export promotion.
- Be a reliable facilitator to the industry at national level.
- Move towards a self sufficient profit making State Corporation.

OBJECTIVES

- To undertake activities pertaining to cultivation, processing and marketing of cashew and cashew products.
- To undertake investigations and research with the object of improving the cultivation, processing and marketing of cashew and cashew products.
- To undertake and collaborate in the collection, preparation, publication and dissemination of technical, marketing and other information pertaining to the cultivation, processing and marketing of cashew and cashew products.
- To establish and assist in the establishment of infrastructure necessary for the purpose of development of cashew plantations, processing facilities and marketing.
- To take such steps as may be considered necessary to advertise and sell cashew products, to promote the demand for such products in the markets of the world and to initiate and sponsor the financing, supervision and supporting of propaganda work for such purpose or for other purpose connected therewith or incidental thereto.

01. Board of Directors of Sri Lanka Cashew Corporation (SLCC) 2010.01.01 to 06.04.2010

The Board of Directors consisted of Chairman and six board members.

i.	Mr. H.Liyanage	-	Chairman
ii.	Mr. P. M. Piyadasa	-	Vice Chairman
iii.	Mr. S. Jayapala	-	Director
iv.	Mr. R. Wickramaratne	-	Director
v.	Mr. B.M.Algama	-	Director
vi.	Mr. D. Abrew	-	Director
vii.	Mr. B. Jayasiri	-	Director
	Mr. L.H.D. Somapala	-	Secretary to the Board

**02. Board of Directors of Sri Lanka Cashew Corporation (SLCC)
from 18.05.2010**

The Board of Directors consisted of Chairman and six board members.

- | | | | |
|------|----------------------------|---|-----------------------------------------|
| i. | Mr. Sanath Weerakoon | - | Chairman |
| ii. | Mr. P. Kariyawasam | - | Vice Chairman |
| iii. | Mr. I. Wijeratne | - | Director |
| iv. | Mr. L. Wanigaratne | - | Director |
| v. | Mr. H.M.G. Ratnayake | - | Director |
| vi. | Mr. H.P.M. Wasantha Kumara | - | Director |
| vii. | Mr. B. Naotunna | - | Director |
| | Mr. L.H.D. Somapala | - | Secretary to the Board up to 16.09.2010 |
| | Mr. V U Liyanage | - | Secretary to the Board from 17.09.2010 |

03. Sri Lanka Cashew Corporation - Audit and Management Committee

- | | | | |
|------|---------------------------|---|--------------------------------------------------------------------------|
| i. | Mr. H P M Wasantha Kumara | - | Board Member – Treasury
Representative – Chairman of the
Committee |
| ii. | Mr. I Wijayarathne | - | Board Member |
| iii. | Mr. L Wanigaratne | - | Board Member |
| iv. | Mr. M T S K Pieris | - | Manager - Finance |
| v. | Miss. S Wickramasinghe | - | Actg. Manageress - Administration |
| vi. | Mr. V U Liyanage | - | Internal Auditor – Secretary to the
Committee. |

04. Sri Lanka Cashew Corporation – Senior Management Staff

- | | | | |
|------|---------------------|---|---------------------------------------------------------------------------|
| i. | Mr. L.H.D. Somapala | - | General Manager |
| ii. | Mr. M T S K Peiris | - | Manager Finance |
| iii. | Mr. P.B. Kodikara | - | Manager Policy & Planning
up to 30.09.2010 |
| | Mr. S S B Ratnayake | - | Manager Extension &
Actg. Manager Policy & Planning
from 01.10.2010 |
| iv. | Mr. O S P Perera | - | Manager Marketing |
| v. | Mr. G B B Surendra | - | Manager Plantations |
| vi. | Mr. V U Liyanage | - | Internal Auditor |

05. Registered Offices.

Head Office & Regional Units.

Head Office up to 24.08.2010

Sri Lanka Cashew Corporation
NO. 396,
Galle Road, Colombo 03

Head Office from 25.08.2010

Sri Lanka Cashew Corporation
1334, Old Kotte Road,
Rajagiriya

Tel.

Chairman - 0112 - 871005
Vice Chairman - 0112 - 869844
General Manager - 0112 - 876134

Fax. - 0112 - 867843

E-mail - cashewco@dialogsl.net

Web - www.cashew.lk

Regional Offices & Estates.

Regional Offices.

1. Puttalam Regional Office. -
2. Hambanthota Regional Office. -
3. Anuradhapura Regional Office. -
4. Naula Regional Office. -
5. Monaragala Regional Office. -
6. Mahiyanganaya Regional Office. -
7. Batticaloa Regional Office. -

Covering Districts.

- Puttalam / Kurunegala.
Hambanthota / Rathnapura.
Anuradhapura / Vavuniya / Mannar.
Matale / Polonnaruwa.
Monaragala.
Badulla / Ampara / Kandy.
Batticaloa / Trincomalee / Ampara

Plantations / Estates

- | | | | |
|---------------------------------------|---|-----------------------|-----------------------------------------------------|
| 1. Kamandaluwa Plantation | - | Puttalam District | |
| 2. Puttalam /Achchigewatta Plantation | - | Puttalam District | |
| 3. Eluwankulama Plantation | - | Putalam District | |
| 4. Hardy Plantation | - | Batticaloa District | |
| 5. Mankerny Plantation | - | Batticaloa District | |
| 6. Mirijjawila Plantation | - | Hambantota District | |
| 7. Kondachchi Plantation | - | Mannar District. | |
| 8. Madhu Plantation | - | Mannar District. | } Not functioning
Due to terrorist
activities |
| 9. Pooneryn Plantation | - | Kilinochchi District. | |
| 10. Thiriyaya Plantation | - | Trincomalee District. | |

Research Units

1. Kamandaluwa Research Unit
2. Puttalam Research Unit

Principal Researcher on behalf of Sri Lanka Cashew Corporation

Staff of the Faculty of Agriculture & Plantation Management Wayamba University of Sri Lanka.

Circuit Bungalows

- | | | |
|---------------------------------|---|-------------|
| 1. Puttalam Circuit Bungalow | - | Puttalam. |
| 2. Mirijjawila Circuit Bungalow | - | Hambantota. |
| 3. Hardy Circuit Bungalow | - | Batticaloa |

THE CHAIRMAN'S REPORT

01. Establishment of Sri Lanka Cashew Corporation

A. The Sri Lanka Cashew Corporation (SLCC) was established under the extraordinary Gazette notification no. 60/7 of 25th May 1973, under the State Agricultural Corporation Act No. 11 of 1972. Since the establishment of the SLCC as a public enterprise, it provides services to the cashew industry while running commercial activities as well.

B. Activities of Sri Lanka Cashew Corporation

The activities of the Corporation are divided into five major sectors as mentioned below.

- i. Promotion of Extension Service
- ii. Plantation Development / Rehabilitation
- iii. Marketing and Cashew Processing Development
- iv. Research and Development
- v. Commercial Nursery Programme

C. The Budget.

Type	Allocation – 2010 (Rs. Mn)		
	GG	GF	Total
Capital	42.726	-	42.726
Recurrent	43.935	24.395	68.330
Total	86.661	24.395	111.056

- GG – Government Grant
- GF – Generated Funds

The programme of Research and Development, Extension services, Seed Garden Development and payment of staff salaries were incurred by government grant.

The development of plantation, market expansion, sale of cashew kernels, production of planting material and sale of wine and training of cashew processors were undertaken during the year utilizing the generated funds of the corporation.

The turnover of the commercial events during the year

	Rs. Mn.
Cashew Kernels	43.194
Raw Cashew Nuts	-
Cashew Mother Seeds	0.110
Coconut	1.244
Commercial Nurseries	<u>27.055</u>
	<u>71.603</u>

02. Expansion of Cultivation and increasing the National Production

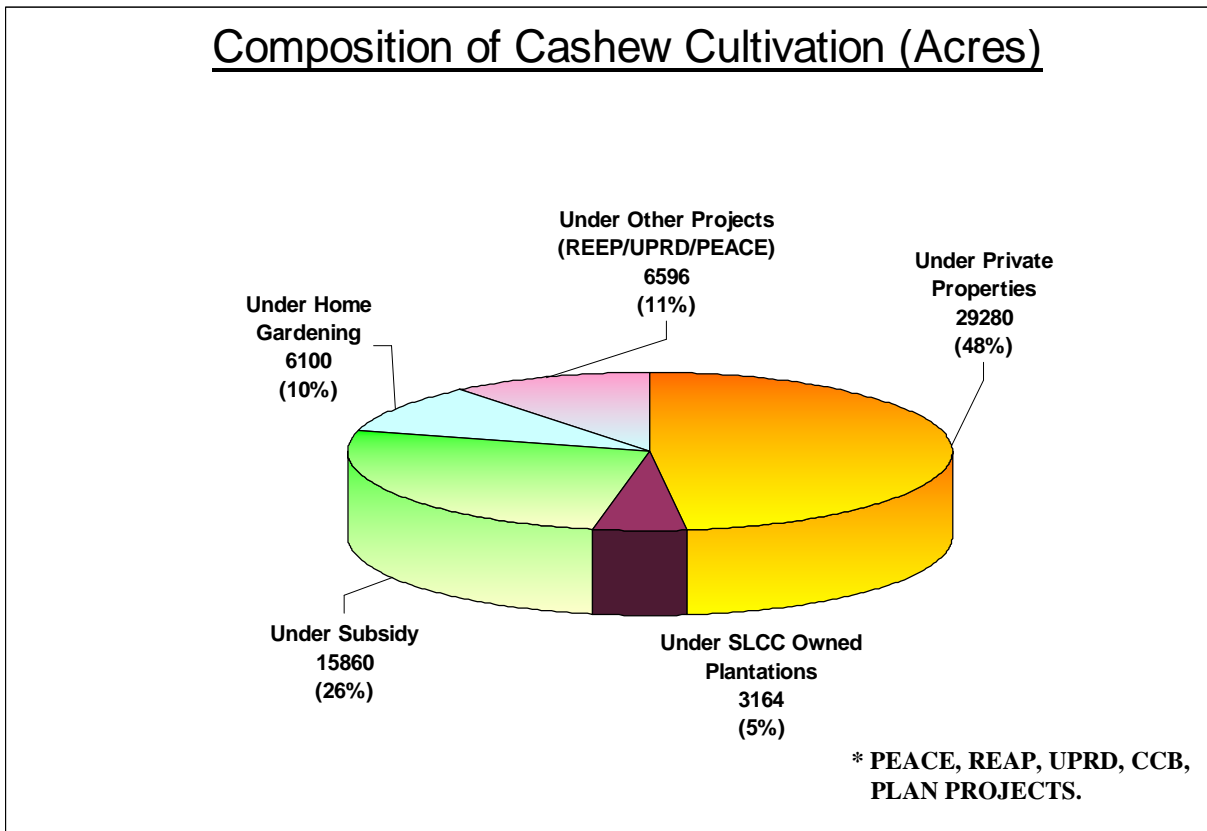
Extension Programme.

The estimated existing extent of cashew cultivation including private plantation is 61,000 Acres and the subsidy scheme implemented by SLCC was directly responsible for its expansion. The share of the land grown under subsidy scheme is 28.33% of the total land extent. The extension activities of cashew industry are functioning in 125 Divisional Secretarial divisions of 16 Administrative Districts.

Table 01 - Total extent of land cultivated under Farmer Assisted Extension Programme

District	Under Bud Grafted Subsidy (Acres)	Under Seedling Subsidy (Acres)	Under Home Garden Project (Acres)	Under PEACE Project (Acres)	Under Mixed Cropping with Coconut (Acres)
1. Anuradapura	450	-	-	107	-
2. Hambantota	250	-	-	-	400
3. Ratnapura	100	-	-	-	-
4. Puttalam	600	-	68	65	-
5. Kurunagala	600	-	59	-	-
6. Matale	180	-	-	-	-
7. Polonnaruwa	120	-	-	-	-
8. Badulla	200	-	-	-	-
9. Kandy	50	-	-	-	-
10. Ampara	150	-	-	-	-
11. Batticaloa	400	550	-	-	-
12. Trincomalee	-	150	-	-	-
13. Vavunia	-	200	-	-	-
14. Mannar	-	100	-	-	-
15. Monaragala	400	-	-	-	-
16. Gampaha	-	-	-	-	100
SubTotal	3500	1000	127	172	500
Total	5299				

Composition of cashew extent of cultivation



a. Cultivation of Budded Cashew under Subsidy Programme

The subsidy scheme implemented by SLCC includes a grant of Rs.9500/- per acre payable in three installments.

b. Cultivation of Seedling Cashew under Subsidy Programme

Seedling cashew cultivation programme was implemented where budded cashew planting is difficult. The subsidy grant is limited to Rs.3500/- per acre for the seedling cultivation .

(Table-01)

c. Home Garden Project

In order to develop home gardens, 9720 seedling plants have been distributed in 05 Divisional Secretariat Divisions in 02 administrative districts namely Puttalam and Kurunagala.

d. Mixed Cultivation with Coconut

400 acres in Hambantota district and 100 acres in Gampaha district, have been cultivated under this programme implemented in collaboration with the Coconut Cultivation Board. (CCB)

e. “Wari Pubuduwa” / PEACE Project

172 acres of budded plants were cultivated in catchments areas as a special project implemented in collaboration with the Irrigation Department in Anuradhapura, Puttalam and Kurunagala districts.

Development / Rehabilitation & Propagation of Planting Material (Seed Gardens)

Mahaoya and part of Monaragala seed gardens which had been badly damaged by fire are in the process of rehabilitation.

Locality	District	Extent (Acres)	Activity (Acres)
a. Mahaoya Seed Garden	Ampara	81	10 acres newly planted.
b. Monaragala Seed Garden	Monaragala	200	10 acres newly planted.
c. Laggala Seed Garden	Matale	55	Maintenance done.
d. Wilachchiya Seed Garden	Anuradapura	25	Maintenance done
e. Elkaduwa Seed Garden	Matale	135	Maintenance done

03. Technology Development.

3.1. Increasing Productivity.

Currently the average yield of a cashew land is 350 kg / ha per year, which is a low production compared to the other cashew producing countries. As the potential productivity is 650kg / ha / year, the Research and Development activities are being carried out, targeting to achieve the said potential yield. Faculty of Agriculture and Plantation Management of Wayamba University of

Sri Lanka (WUSL) is a co-partner for Research and Development activities of the Cashew Corporation.

3.2 Research & Development.

The first cashew germplasm collection site was established at Eluwankulam in Puttalam district is an extent of 200 acres. Most promising six cashew varieties namely WUCC 05, WUCC 08, WUCC 09, WUCC 13, WUCC 19 and WUCC 21 were released and two more clones to be released shortly.

Pest control, Agronomic Practices, Fertilizer recommendations, Pruning, training and socio – economic studies are the main components of the Research & Development Programme. The experiments are in progress in collaboration with WUSL. The finding of research activities were disseminated to growers through extension staff, field demonstrations, leaflets, videos and TV programmes continuously.

3.3 By-Products.

Continuous research and experiments are being carried out with the assistance of scientific & technological institutions to explore the possibilities of using cashew apple for the production of a range of by products such as various fruit drinks, jam ,wine, etc. A separate project proposal has been submitted to obtain required financial and other assistance for early implementation.

04. Small Scale Cashew Entrepreneur Development

4.1 Strengthening of Cashew Processing Societies

Proper mechanism is essential to produce high quality cashew and to fetch a high price in the market. Providing cashew processing equipments, training of processors, arrangement of financial assistance to societies and market promotional assistance are the major activities of this programme.

09 training programmes were conducted and 02 nos. of Ovens were provided to these societies. SLCC also assisted in providing electricity to a small processing unit at Galewela.

The required training facilities were provided using the facilities available at SLCC processing centers at Nedagamuwa and Kiran - Batticaloa.

05. Marketing

5.1 Purchase of Raw Cashew Nuts

The corporation purchased raw cashew nuts directly from farmers in a competitive environment and was able to pass the benefit to farmers by establishing an average high price of Rs.250/= per kg. SLCC purchased 50 MT. from the farmers and collected 80 MT from own estates during year 2010, as the harvest was not favourable as expected.

06. Business Performance of SLCC as a Public Enterprise

6.1 Cashew Nut Processing and Marketing

Cashew processing factories belonging to SLCC are located at Puttalam, Nedagamuwa (Gampaha District) and Mangalagama in Ampara District.

The processed and value added cashew nuts are sold through corporation sales outlets at Colombo - 03, Rajagiriya and Hambantota .

SLCC has earned Rs. 4.42 Mn. Nett. profit from marketing activities during the year 2010.

The total profit gained from sales has been increased by 200% during the year 2010. Improvements in quality standards ,value addition and production based on customer requirements including better administrative and internal controls were directly contributed towards the increase of sales and profits.

6.2 Cashew Plantations

Puttalam, Kamandaluwa,Hardy, Mirijjawila, Mankerny, Kondachchi are the cashew plantations belonging to SLCC.

Thiriyaya, Poonarin, and Madu had been abandoned due to terrorist activities.

6.2.1 Rehabilitation/Development of cashew cultivation in the North & East. (Kondachchi, Poonarin, Thiriyaya, Mankerny, Madu Plantations).

Development/Rehabilitation work commenced at Kondachchi and Mankerny plantations in the Northern and Eastern Provinces. Initially 500 acres were planted with seedlings in Kondachchi in Mannar district, with the assistance of Dept. of Civil Security. Poonarin plantation (Kilinochchi district) earlier

occupied by LTTE (nearly 500 acres) is now under Sri Lanka Army. 100 acres were planted in Mankerny plantation (Batticaloa district).

6.3 Nursery Management Programme

Certified planting materials from selected cashew clones were issued to growers through nurseries located at Kamandaluwa, Nikaweratiya, Dambulla, Mihintale, Trincomalee, Mahiyanganaya, Monaragala, Batticaloa and Embilipitiya.

Table – 02.

Plant Production Details

Name of Nursery.	Budded Plants.	Seedling Plants.
1. Kamandaluwa	65,020	6,500
2. Nikaweratiya	61,516	-
3. Dambulla (Naula)	34,980	3,720
4. Mihinthale	54,610	-
5. Trincomalee	5,942	-
6. Mahiyanganaya	26,410	2,064
7. Monaragala	29,949	4,259
8. Batticaloa	29,000	-
9. Embilipitiya (Chandrikawewa)	29,000	-
Total	336,427	16,543

Budders and nursery men were trained regularly to promote the production of quality cashew plants at these nurseries.

Planting Material Production Programme is one of the main income generation source of SLCC and gained Rs. 6.83 Mn Net profit during the year 2010.

07. Foreign Exchange Earnings

During the year 2010, Foreign Exchange of 2.2 Mn. US\$ was earned through cashew exporters to different international markets in value added and high quality form. Compared to the exports in the previous year which was only 1-7 Mn. US\$, a significant increase of 88% is shown. (Source of information – EDB)

The export markets for Sri Lankan Cashews are Germany, USA, Japan, Netherlands, Maldives, Australia, Israel, Greece, France, Cyprus, Spain, UAE and other Middle East countries.

The training and other assistance provided by the corporation in the fields of processing, application of new technology, value additions, and standardization have been successfully contributed in achieving these results.

08. Cashew Imports

8.1 Import for local consumption

Small scale cashew processing societies were given permits to import raw cashew with duty free concession and they have imported 100 mts of raw nuts and distributed among a large number of processors.

09. Re-organization of the General Administrative System.

9.1 At the time the Chairman and the new Board of Directors assumed duties in May 2010, the entire Administrative system was malfunctioning due to lack of proper guidance. There was no proper co-ordination between various divisions and lack of following of accepted norms was responsible for the breakdown of the Administrative structure.

The entire system was re-organized with the fullest co-operation of the Board of Directors and staff of the SLCC by adopting new development strategies of the government, “Mahinda Chinthana” to fulfill the aspirations of the people and the employees of the SLCC.

9.2. The Human Resource Development Programmes were conducted to suit all levels of hierarchy, as well as skills development programmes for the field staff. Medical scheme was implemented for hospitalized or OPD patients as per approved ceilings of Rs.30,000.00 and Rs.9,500.00, per employee per year respectively.

9.3. The cadre position of SLCC as at 31/12/2010 is as follows.

Approved Cadre	Actual as at 31/12/2010	
Management Cadre	13	10
Executive Grade	13	09
Middle Grade	108	60
Minor Grade	<u>47</u>	<u>54</u>
Total	<u>181</u>	<u>133</u>

In addition, there are about 350 check roll labourers working in processing centers, plantations and nurseries based on the monthly requirements.

10. Achievements.

The present Board of Directors, assumed duties in June 2010. Within a few months, the Corporation which was running at a loss, showed a profit in its commercial and nursery activities, entirely due to the effective and efficient guidance and the policies adopted by the new Board of Directors.

The SLCC which was running at a heavy loss of around Rs. 4.5 Mn. per month up to June (Till the new Board assumed duties) has gained a profit of Rs. 6.303 Mn during the year 2010, from commercial activities of the Corporation. This is a tremendous achievement, the SLCC has reached after 12 years.

It was not possible to gain a higher profit than this, due to the following constraints.

- Drastic cashew yield drop in plantations due to bad weather conditions.
- High buying prices of cashew kernels and raw nuts due to shortages.
- High cost of Labour and materials.
- Inability to collect harvest from plantations in North and East during the period due to the landmines etc.
- Continuous reduction of recurrent grant to carryout essential service activities, where the shortage was compensated by generated funds of the Corporation. This finally resulted in creating a liquidity problems and unavailability of funds to invest in commercial activities.

11. Conclusion

I would like to extend my sincere gratitude to the current Board Members for their unreserved support and co-operation extended to me in uplifting the SLCC to its present viable status within a short period of 06 months.

I also thank all categories of officers in the Corporation and stakeholders for their fullest support and dedication.

I wish to thank the Minister, Hon. Reginold Cooray and the Secretary, Mr. Wajira Narampanawa and staff of the Ministry of Minor Export Crops Promotion for their guidance and advise.

I also wish to thank former Minister Hon. P. Dayaratne and the Secretary, Dr. Wille Gamage of the Ministry of State Resources & Enterprise Development for guiding the Board of Directors and the officials of the SLCC from the inception.

Sanath Weerakoon

Chairman

Sri Lanka Cashew Corporation

Report of the Board of Directors

On behalf of the board of directors I herewith submit the audited financial statements for the year ended 31st December 2010.

In terms of the circular No. PED/11 issued on the 2nd of June 2003 by the Director General of the Department of Public Enterprises of the General Treasury, the financial statements of Sri Lanka Cashew Corporation was submitted to the Auditor General before 28th February 2011.

Establishment

Sri Lanka Cashew Corporation was established with an initial capital of Rs.40millions on 25th May 1973 by the gazette notification No.60/7 issued under the subsection 01 of the section 02 of the state Agricultural Act No. 11 of 1972 and by the order of the Minister of Plantation Industries at the time.

Outcome

Financial outcome & data on change of equity in the current year have been disclosed by the statement on the change of equity and the financial statement.

Business Review

The financial status of Sri Lanka Cashew Corporation in the year ended 31st December 2010 is given in the balance sheet and an evaluation in this respect is included in the chairman's report.

Property, Plants & Equipment

Changes that had taken place with regard to Property, Plants and equipment during the current year have been indicated at entry no. 1. The difference between the values indicated at this entry and their current market rates is immaterial.

Main Activities

The main activities of Sri Lanka Cashew Corporation are as follows.

- Establish and maintain nurseries to produce and supply high quality selected varieties of cashew plants.
- Expand the extent of cashew cultivation with the assistance of small scale farmers under the government subsidy programme.
- Maintain and develop Plant Propagation Centres and Corporation plantations to produce mother seeds and planting materials.
- Provide training and other technical support services to farmers to introduce good agricultural practices for better productivity.
- Introduce new technology to processing industry to improve productivity and quality standards of finished products.
- Assist cashew growers, farmers and processors to ensure the sustainability and healthy growth in the industry.
- New product development, value addition and standardization.
- Conduct continuous research in close collaboration with universities and other scientific and technological institutions in various aspects for the development of the industry.

Board of Directors

The Board of Directors appointed as at 31st December 2010 is as follows.

Mr.Sanath Weerakoon	-	Chairman
Mr.P.Kariyawasam	-	Vice Chairman
Mr. I.Wijerathne	-	Director
Mr. L.Wanigarathne	-	Director
Mr.H.M.G.Ratnayake	-	Director
Mr.H.P.M.Wasantha Kumara	-	Director
Mr.B.Naotunna	-	Director
Mr.V.U.Liyanage	-	Secretary to the Board

Audit and Management Committee

The Corporation's Audit & Management Committee has been established in accordance with the Public Enterprises Guide Lines.

Statutory Payments

All statutory payments that should be made to the government & employees have been duly paid.

Environment Security

The corporation has not been involved in any activity posing a threat to the environment.

Incidents subsequent to the balance sheet data

No incident has been reported to be adjusted through accounts or for disclosure subsequent to the balance sheet data.

Auditors

The financial statement of Sri Lanka Cashew Corporation for the year ended 31st December 2010 has been subjected to audit by the Auditor General.

By the order of the Board of Directors.

V.U. Liyanage
Secretary to the Board of Directors

Audit & Management Committee Report

The audit and management committee was appointed in terms of the provisions of Public Finance circular No PED/31 and comprised of a non executive director representing the treasury, another two non executive directors the line ministry finance director, Administrative director and internal auditor and an observer representing the Auditor General's Department.

The non-executive director representing the treasury acted in the post of committee chairman and the internal auditor of the corporation acted in the post of committee secretary.

During the year under review, the audit & management committee was convened 02 times and the participation of the committee members in these meetings had been in the following manner.

- 01) Mr. M.P.M. Wasantha Kumara – Committee chairman 2/2
Member of the board of directors – Treasury representative from 21/10/2010
- 02) Mr. Indrajith Wijeratne – Committee member 2/2
Member of the board of directors – from 21/10/2010
- 03) Mr. Lalith Wanigaratne – Committee member 1/2
Member of the board of directors – from 31/12/2010
- 04) Mr. M.T.S.K. Pieris – Committee member 2/2
Manager – Finance
- 05) Ms. S. Wickramasinghe – Committee member 2/2
Acting Manager – Administration
- 06) Mr. V.U.Liyanage – Committee secretary 2/2
Internal Auditor
- 07) Mrs. D.S. Withanage – Committee observer 2/2
Auditor General's Department representative

The following tasks were performed by the audit and management Committee during the year under review.

- ^ The present content of the final accounts prepared by the corporation was extensively analyzed and recommendations were forwarded to the board of directors on the necessary actions that should be followed in respect of the revisions to be made to the presentations included there in.
- ^ Recommendations were forwarded to the board of directors on the newest introductions of standards and norms with regard to the corporation's activities and their update.

- ✦ Field audits of the corporation were reviewed and recommendations were forwarded to the board of directors on the actions necessary to be taken.

- ✦ A review was done on the audit reports issued by the Internal Audit Division of the corporation during the first three quarters of the year 2010.

H.P.M. Wasantha Kumara
Chairman – Audit & Management Committee

Sri Lanka Cashew Corporation
Amalgamated Balance Sheet As At 31.12.2010

31.12.2009

<u>Rs.</u>		<u>Notes</u>	<u>Rs.</u>	<u>Rs.</u>
	Assets			
	Non Current Assets			
70,231,757.24	Propety Plant & Equipment	01	4,506,381,339.31	
71,401,332.14	Mature Area Expenditure	02	67,803,331.96	
384,913.90	Capital Working Progress		-	
38,325,202.49	Immature Area Expenditure	03	41,038,577.11	
<u>609,359.87</u>	Other Small Projects	04	<u>807,056.87</u>	
180,952,565.64	Total Non Current Assets			4,616,030,305.25
	Current Assets			
30,688,009.71	Stocks	05	25,102,254.63	
14,996,415.61	Trade Debtors & Other Receivables	06	10,916,241.08	
1,456,187.95	Advances & Prepayments		2,479,690.28	
<u>13,618,608.69</u>	Cash & Cash Equivalents	07	<u>5,863,861.48</u>	
60,759,221.96	Total Current Assets			<u>44,362,047.47</u>
<u>241,711,787.60</u>	Total Assets			<u>4,660,392,352.72</u>
	Equity & Liabilities			
	Equity			
244,032,081.62	Government Grant		251,952,042.15	
13,570,025.96	Grant from Other Parties	08	13,570,025.96	
23,676,376.25	Capital Reserves	09	4,464,178,935.01	
<u>(101,552,075.16)</u>	Profit & Loss Account		<u>(109,251,866.04)</u>	
179,726,408.67	Total Equity			4,620,449,137.08
	Non Current Liabilities			
<u>22,910,764.50</u>	Provision for Gratuity		<u>24,451,548.87</u>	
22,910,764.50	Total Non Current Liabilities			24,451,548.87
	Current Liabilities			
<u>39,074,614.43</u>	Trade Creditors & Other Payables	10	<u>15,491,666.77</u>	
39,074,614.43	Total Current Liabilities			<u>15,491,666.77</u>
<u>241,711,787.60</u>	Total Equity & Liabilities			<u>4,660,392,352.72</u>

M.T.S.K.Peiris
Manager-Finance

Sanath Weerakoon
Chairman

SRI LANKA CASHEW CORPORATION

Accounting Policies – 2010

- (1) The accounts have been prepared in accordance with the generally accepted accounting principles and historical cost basis.
- (2) Fixed Assets depreciated on the fixed installments (i.e.) Straight line Basis. The depreciation for the year of purchase is provided in proportion to the date of purchase. Full depreciation is provided on buildings, in the year of completion of construction, irrespective of the date of completion.

- (3) The depreciation rates are as follows:

Vehicles	20%
Plant & Machinery	10%
Tools & Equipment / Office Equipment	10%
Tube Wells	10%
Furniture & Fittings	06%
Buildings – Permanent	03%
Buildings – Semi Permanent	33%

- (4) The basis followed in valuing of stock is as follows:

a. Cashew Kernels & Cashew Nut Shell Liquid	-	Net realizable Value
b. Cashew Seeds	-	Guaranteed Floating/ Marketing price
c. Sheep & Cattle	-	Market Price in the region (Live weight)
d. Coconut	-	Since realized Value
e. All other stocks	-	At cost

Head Office Charges have been apportioned among the cost centers on the basis of total salary expenditure incurred for the cost centers.

- (5) The basis of apportionment of Plantation General Expenditure to mature, immature area, nursery & Animal husbandry on the actual labour days.
- (6) Amortizing of Cashew & Coconut Mature Areas is at 5% per annum.
- (7) The provision for bad doubtful debts is made at 3.53% on total debts. Difference in the provision, Provision account is transferred to write off bad debts account for the final year.

- (8) Past service cost arising during the period of completion of the minimum period of service for illegibility, for gratuity payable under the Act, is charged to income during the accounting year the employees complete the minimum period of service. Present service cost arising during the period, after the completion of minimum period is charged to income during the related accounting year.

- (9) Kondachchi Plantations is not operational from year 1990. Corporation has not employed officers for these Plantations and no income is getting from the plantations. Therefore, the provision due to amortization and depreciation of above plantations will not be charged against the profit until the plantations are resettled.

Sri Lanka Cashew Corporation
Notes to the Balance Sheet as at 31.12.2010

Note - 01

Property, Plant & equipment:

Asset	Cost/Revaluation Value as at 01.01.2010 (Rs.)	Additions/ Revaluation During the Year (Rs.)	Disposal/ Transfer During the Year (Rs.)	Cost/Revaluation Value as at 31.12.2010 (Rs.)	Cumulative Depreciation as at 31.12.2010 (Rs.)	Written Down Value as at 31.12.2010 (Rs.)
Land	11,406,070.54	4,440,835,058.76	-	4,452,241,129.30	-	4,452,241,129.30
Buildings	48,191,851.57	2,220,605.18	-	50,412,456.75	21,243,015.03	29,169,441.72
Motor Vehicles	27,735,300.00	-	25,000.00	27,710,300.00	10,458,340.00	17,251,960.00
Plant & Machinery	8,631,207.59	28,737.00	-	8,659,944.59	7,533,666.98	1,126,277.61
Tools & Equipment	8,029,125.92	91,978.50	83,710.00	8,037,394.42	6,903,134.02	1,134,260.40
Office Equipment	7,857,061.99	229,655.00	-	8,086,716.99	5,787,706.84	2,299,010.15
Furniture & Fittings	4,812,311.73	302,632.57	56,281.00	5,058,663.30	2,782,928.79	2,275,734.51
Tube Well	344,625.00	-	-	344,625.00	344,623.00	2.00
Cultivation Well	274,699.00	-	-	274,699.00	-	274,699.00
Tank	608,824.62	-	-	608,824.62	-	608,824.62
	117,891,077.96	4,443,708,667.01	164,991.00	4,561,434,753.97	55,053,414.66	4,506,381,339.31

Sri Lanka Cashew Corporation

Note - 02

Mature Area Expenditure

		(Rs.)
Cashew	Schedule - 2A	65,215,058.83
Coconut	Schedule - 2B	<u>2,588,273.13</u>
	Total	<u>67,803,331.96</u>

Schedule - 2A

Mature Area - Cashew

Plantation	Cost up to maturity as at 01.01.2010 (Rs.)	Provision for Amortization as at 31.12.2010 (Rs.)	Net Value as at 31.12.2010 (Rs.)
Hardy Plantation	2,136,901.73	1,280,776.19	856,125.54
Kamandaluwa Plantation	12,581,810.88	7,428,075.12	5,153,735.76
Kondachchi Plantation	22,925,162.09	-	22,925,162.09
Marnkerny Plantation	6,300,954.91	2,263,394.46	4,037,560.45
Mirijjawila Plantation	8,985,511.98	1,797,102.40	7,188,409.58
Puttalam Plantation	27,311,754.96	11,464,853.09	15,846,901.87
Eluwankulama Seed Garden	13,933,185.28	4,870,804.04	9,062,381.24
Vilachchiya Seed Garden	<u>160,869.00</u>	<u>16,086.70</u>	<u>144,782.30</u>
Total	<u>94,336,150.83</u>	<u>29,121,092.00</u>	<u>65,215,058.83</u>

Sri Lanka Cashew Corporation

Schedule - 2B

Mature Area - Coconut

Plantation	Cost up to maturity as at 01.01.2010 (Rs.)	Provision for Amortization as at 31.12.2010 (Rs.)	Net Value as at 31.12.2010 (Rs.)
Hardy Plantation	1,369,822.51	136,982.26	1,232,840.25
Kamandaluwa Plantation	1,805,470.37	655,235.56	1,150,234.81
Puttalam Plantation	<u>431,998.76</u>	<u>226,800.69</u>	<u>205,198.07</u>
	<u>3,607,291.64</u>	<u>1,019,018.51</u>	<u>2,588,273.13</u>

Note - 03

Immature Area Expenditure

		(Rs.)
Cashew	Schedule - 3A	38,732,325.42
Coconut	Schedule - 3B	<u>2,306,251.69</u>
	Total	<u>41,038,577.11</u>

Sri Lanka Cashew Corporation

Schedule - 3A

Immature Area - Cashew

Plantation	Cost as at 31.12.2010 (Rs.)
Hardy Plantation	575,304.97
Kamandaluwa Plantation	1,997,053.11
Kondachchi Plantation	17,962,037.98
Puttalam Plantation	2,568,122.97
Eluwankulama Seed Garden	127,128.52
Mirijjawila Plantation	6,250,120.05
Manrkerni Plantation	1,886,259.05
Elkaduwa Seed Garden	4,035,319.27
Laggala Seed Garden	980,015.15
Mahaoya Seed Garden	885,298.00
Monaragala Seed Garden	1,134,960.40
Vilachchiya Seed Garden	<u>330,705.95</u>
Total	<u>38,732,325.42</u>

Schedule - 3B

Immature Area - Coconut

Plantation	Cost as at 31.12.2010 (Rs.)
Hardy Plantation	24,037.40
Kamandaluwa Plantation	673,379.76
Kondachchi Plantation	18,540.04
Marnkerny Plantation	<u>1,590,294.49</u>
	<u>2,306,251.69</u>

Sri Lanka Cashew Corporation

Note - 04

Other Small Projects

Project	Cost as at 31.12.2010 (Rs.)
Teak Plants Project	211,882.19
Banana Project	445,546.84
Bee Keeping	750.00
Papaya Project	148,877.84
	<u>807,056.87</u>

Note - 05

Stocks

	(Rs.)
Processing Equipments	145,000.00
Sundries	1,416,769.02
Wine	109,289.79
Animal Husbandry	1,684,815.00
Cashew Kernels	10,389,795.00
Raw Cashew	7,093,225.00
Plants	3,419,070.81
Tea Leaves	1,420.00
Packing Materials	842,870.01
	<u>25,102,254.63</u>

Note -06

Trade Debtors & Other Receivables

		(Rs.)
Trade Debtors	3,905,970.00	
Less : Pro. For Bad Debts	<u>137,881.00</u>	3,768,089.00
Sundry Debtors		<u>7,148,152.08</u>
		<u>10,916,241.08</u>

Sri Lanka Cashew Corporation

Note -07

Cash & Cash Equivalents

	(Rs.)
Cash in Transit	94,958.00
Cash at Bank & Cash in Hand	<u>5,768,903.48</u>
Total	<u>5,863,861.48</u>

Note - 08

Grant from other Parties

	(Rs.)
North East Coastal Community Development Project	7,699,951.16
State Plantation Corporation	4,176,784.00
Department of Minor Export Crop.	80,839.00
Ministry of Supplementary Plantation Crop. Development	<u>1,612,451.80</u>
	<u>13,570,025.96</u>

Note - 09

Capital Reserves

		(Rs.)
Revaluation Reserve - Vehicles	23,163,646.03	
Revaluation Reserve - Land	4,440,502,558.76	
Other Capital Reserves	<u>512,730.22</u>	
		<u>4,464,178,935.01</u>

Note - 10

Current Liabilities

	(Rs.)
Sundry Creditors	9,364,490.28
Accrued Expenses	<u>6,127,176.49</u>
Total	<u>15,491,666.77</u>

Sri Lanka Cashew Corporation
Commercial Sector
Amalgamated Profit & Loss Account For The Year Ended 31.12.2010

31.12.2009 (Rs.)	Particulars	31.12.2010 (Rs.)
36,125,228.50	<u>Sales</u> Cashew Kernels	44,480,723.35
1,939,570.25	Raw Cashew	-
38,500.00	Cashew Mother Seeds	110,000.00
26,234,182.41	Cashew Plants	27,055,554.68
701,234.32	Coconut	1,244,027.00
-	Return Inward	(1,286,900.00)
361,252.29	Turnover Tax	(431,938.25)
64,677,463.19	Net Sales	71,171,466.78
	<u>Cost of Sales</u>	
2,984,484.86	(Increase)/Decrease In Stock	(1,297,193.88)
5,540,454.91	Nursery Expenses	8,769,462.13
17,020,989.02	Cost of Production/Over Heads	24,263,191.79
11,119,155.98	Mature Area Admin. Expenditure	12,207,161.50
5,534,776.55	Mature Area Direct Expenses	6,192,362.81
42,199,861.32	Total Cost of sales	50,134,984.35
22,477,601.87	Gross Profit/ (Loss)	21,036,482.43
	<u>Expenditure</u>	
18,072,056.03	Administration Expenses (Direct)	15,691,109.23
18,072,056.03		15,691,109.23
4,405,545.84	Profit / (Loss) Before Amortization	5,345,373.20
3,427,822.88	Amortization	3,589,956.93
977,722.96	Profit/(Loss) After Amortization	1,755,416.27
94,911.85	Profit/(Loss) Wine	12,054.21
	Page No; 54	
171,320.00	Profit/(Loss) Processing Equip.	74,700.00
	Page No; 61	
(106,058.91)	Profit/(Loss) Papaya Project /Water Melon	-
220,402.18	Profit/(Loss) Animal Husbandry	(208,757.63)
	Page No; 74	
1,358,298.08	Operational profit / (Loss)	1,633,412.85
	Administration Expenses (Head Office) (Indirect)	13,711,978.14
	Sundry Income	1,447,787.72
	Government Grant (Recurrent)	16,958,774.94
	Profit/(Loss) Training Centre	(24,539.22)
	Page No; 63	
	Net Profit/(Loss)	6,303,458.15

(Transferred to Final Amalgamated Profit & Loss Account)

Sri Lanka Cashew Corporation
Service Sector

Income & Expenditure Account for the Year Ended 31.12.2010

(Rs.)

Income

Government

Grant -	Capital	-	Current Year	27,717,395.53
			- Amortization	2,462,643.94
			- Recurrent	<u>26,976,225.06</u>

Total Income

57,156,264.53

Less;

Expenditure

Head Office 18,191,880.50

Under Capital Grant 27,717,395.53

Extension Service 29,902,282.97

Research & Development 2,703,345.12

Total

Expenditure

78,514,904.12

Expenditure Over Income during the Year
Transferred to Final Amalgamated Profit/Loss
Account

(21,358,639.59)

Sri Lanka Cashew Corporation

**Final Amalgamated
Profit & Loss Account for the Year Ended 31.12.2010**

	(Rs.)
Net Profit earned from the Commercial Sector	6,303,458.15
Expenditure Over Income for the Year	<u>(21,358,639.59)</u>
- Service Sector	(15,055,181.44)
Profit/(Loss) Brought Forward	(101,552,075.16)
Prior Year Adjustment	<u>7,355,390.56</u>
Profit/(Loss) Carried Forward	<u>(109,251,866.04)</u>

SRI LANKA CASHEW CORPORATION

CASH FLOW STATEMENT

Consolidated cash flow statement for the year ended 31st December 2010.

Year ending 31st December - 2010

	(Rs.)	(Rs.)
<u>Cash Flows from Operating Activities</u>		
Loss for the year		(15,055,181.44)
<u>Adjustments for items not involving movement of cash</u>		
Depreciation	7,432,740.92	
Amortization	3,598,000.18	
Provision for Gratuity	3,529,716.37	
Creditors written off - prior year adjustment	7,355,390.56	
Bad debtors written off	(51,489.00)	
Loss on exchange of fixed Assts	5,000.00	
Writte off Loss on fixed Assets	116,760.52	
Written off Raw Cashew	4,583.50	
Government Grant Amortization	<u>(30,180,039.47)</u>	
		<u>(8,189,336.42)</u>
Operating Profit/(loss) before changes in items of working capital		(23,244,517.86)
<u>Changes in items of Working capital</u>		
Stocks - (Increase)/Decrease	5,585,755.08	
Debtors - (Increase)/Decrease	4,131,663.53	
Advances and Prepayments - (Increase)/Decrease	(1,023,502.33)	
Creditors - Increase/(Decrease)	(21,578,673.90)	
Accrued Expenses - Increase/(Decrease)	<u>(2,004,273.76)</u>	<u>(14,889,031.38)</u>
		<u>(38,133,549.24)</u>
Payment of Gratuity		<u>(1,988,932.00)</u>
Cash used in/generated from operating activities		(40,122,481.24)
<u>Cash flows from Investing Activities</u>		
Purchase of fixed assets	(3,206,108.25)	
Investment on New Planting	(2,713,374.62)	
Investments on Other Small Projects	(197,697.00)	
Work in Progress	384,913.90	
		(5,732,265.97)
		(45,854,747.21)

SRI LANKA CASHEW CORPORATION

Cash Flows from Financial Activities

Government Grant		38,100,000.00
Increase in cash & cash equivalents		(7,754,747.21)
Cash & cash equivalents at beginning of the year	(Note-01)	<u>13,618,608.69</u>
		<u>5,863,861.48</u>

Note - 01

	<u>As at 01.01.2010</u>	<u>As at 31.12.2010</u>
Cash at Bank/in hand	13,570,352.69	5,768,903.48
Cash in Transits	<u>48,256.00</u>	<u>94,958.00</u>
	<u>13,618,608.69</u>	<u>5,863,861.48</u>

Sri Lanka Cashew Corporation
Changes in Equity statement for the year ended 31.12.2010

Changes	Government Grant-Capital	Grant from Sri Lanka SPC	Grant from DMEC	Grant from NECCD Project	Grant from MSPCD	Revaluation Reserve	Other Capital Reserves	Profit & Loss Account	Total
Balance as at 01.01.2010	244,032,081.62	4,176,784.00	80,839.00	7,699,951.16	1,612,451.80	23,163,646.03	512,730.22	(101,552,075.16)	179,726,408.67
Grant Received during the year	38,100,000.00	-	-	-	-	-	-	-	38,100,000.00
Transfers to Profit & Loss Account	(30,180,039.47)	-	-	-	-	-	-	-	(30,180,039.47)
Revaluation Surplus - Land	-	-	-	-	-	4,440,502,558.76	-	-	4,440,502,558.76
Prior year Adjustment on written off creditors	-	-	-	-	-	-	-	7,355,390.56	7,355,390.56
Loss for the period	-	-	-	-	-	-	-	(15,055,181.44)	(15,055,181.44)
Balance as at 31.12.2010	251,952,042.15	4,176,784.00	80,839.00	7,699,951.16	1,612,451.80	4,463,666,204.79	512,730.22	(109,251,866.04)	4,620,449,137.08

SPC - State plantation Corporation

DMEC - Department of Minor Export Crops

NECCD -North East Coastal Community Development Project

MSPCD - Ministry of Supplementary Plantation Crops Development

1:3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub - sections (3) and (4) of the Section.13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Financial Statements

2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Cashew Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Sri Lanka Cashew Corporation as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2:2 Comments on Financial Statements

2:2:1 Non-compliance with Sri Lanka Accounting Standards (S.L.A.S.)

Non-compliance with the following Sri Lanka Accounting Standards were observed during the course of audit.

Reference to SLAS	Particulars
(a) SLAS 3	Even though the accounts should be signed after stating the declaration on the responsibility for the preparation of financial statements, it had not been so stated in the accounts.
(b) SLAS 16	Even though the gratuity should be provided for employees who have completed one year of service, it had not been so done.
(c) SLAS 18	Even though the lands had been revalued at Rs.4,452, 241,129, the matters to be disclosed in the accounts in that connection had not been disclosed.
(d) SLAS 24	(i) Grants received from other parties totalling Rs.5,870,075 brought forward over long periods, assets received or the development works constructed had not been identified and brought to account. (ii) The accounting policy adopted for the accounting of Government contributions and Government Grants and the other disclosures including the accounting systems adopted for presenting the financial statements had not been disclosed.

- (iii) Even though a sum equivalent to the depreciation percentage on the depreciation on assets constructed out of capital grants should be recognized annually as income and brought to account, only a sum of Rs.2,462,643 had been recognized as the amortization on the capital grants amounting to Rs.257,602,107.

2:2:2 Accounting Deficiencies

2:2:2:1 Overstatements in the Accounts

- (i) Out of the sum of Rs.38,100,000 received as capital grants, a sum of Rs.7,987,334 had been treated as recurrent grants and brought to account as revenue receipts and as such as income for the year under review had been overstated by that amount. Nevertheless, an accounting policy on the specific identification of the revenue or capital expenditure had not been included in the financial statements.
- (ii) Even though a sum of Rs.46,515,043 had been shown in the accounts as the assets (excluding lands) of the Kondachchi Estate, most of those assets did not exist physically. As such the value of the assets shown in the balance sheet as at the last date of the year under review had not been shown accurately.

2:2:3 Accounts Receivable and Payable

2:2:3:1 Accounts Receivable

An age analysis of the external debtors amounting to Rs.2,022,372 had not been furnished. Action had not been taken for the recovery of the debtors balances of the Kamandaluwa Estate and the Extension Division totalling Rs.12,829 lapsed for over 06 years.

2:2:4 Lack of Evidence for Audit

The debtors and creditors for the years under review amounted to Rs.11,054,122 and Rs.9,364,490 respectively and the confirmation of balances thereon had not been obtained. The relevant registers had not been maintained as well. An age analysis of the creditors had not been furnished.

2:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions.	Non – compliance
(a) Financial Regulations of the Government of Sri Lanka	
(i) Financial Regulation 757(2)	The Board of Survey Reports for the year under review had not been furnished to audit.
(ii) Financial Regulation 1646	The Daily Running Charts and Monthly Performance Summaries in respect of 21 motor vehicles had not been furnished to the Auditor General.
(b) Circulars	
(i) Notification on the Establishment of Sri Lanka Cashew Corporation published in the Gazette Extraordinary dated 25 May 1973 and the Management Services Circular No. 39 of 26 May 2009	Even though there was no provision for the post of Vice Chairman, the Minister in charge of the subject had appointed a Vice Chairman and a sum of Rs.255,999 had been paid as salary and allowances during the year under review. In addition to this payment, a motor vehicle with a driver had been

allocated to the Vice Chairman. The Corporation had paid a fuel allowance to him and settled his telephone bills as well.

- (ii) Public Enterprises Circular
No. PED/12 of 02 June 2003
Section 8.3.4

The Chairman of the Corporation had been paid a telephone allowance of Rs.81,859 in the year under review at Rs.11,694 per mensem contrary to the provisions of the circular.

- (iii) Public Enterprises Circular
No. PED/28 of 31 January
2005

An agreement prepared according to the instructions of the Director General of Public Enterprises was not available for the motor vehicles procured on hire basis.

- (iv) Procurement Guidelines 2006
Section 3.2

Even though a sum of Rs.909,015 had been spent on the construction of the Cashew Sales Stall, Mirijjawila, quotations had not been called for in that connection.

- (v) Letter No. PE/CO/MC/27/2
Vol. iii dated 19 November
2008 of the Department of
Public Enterprises.

Even though it was informed that a transport allowance cannot be paid to the staff of the Corporation, transport allowances at the rate of Rs.1,500 and Rs.5,000 per mensem had been paid to the officers contravening the instructions.

- (vi) Establishments Code, Chapter
viii Section 10.2

If the holiday pay is obtained for working on weekends and public holidays, the prior approval should be obtained. But it had not been so done.

3. Financial and Operating Review

3:1 Financial Review

3:1:1 Financial Results

According to the financial statements presented, the working of the Corporation for the year ended 31 December 2010 had resulted in a deficit of Rs.15,055,181 as compared with the corresponding deficit of Rs.11,759,352 for the preceding years. Accordingly, the deficit for the year under review as compared with the preceding year, had increased by Rs.3,295,829. The increase in the expenditure on nurseries and the Head Office by Rs.3.2 million and Rs.4.3 million respectively had been the reasons for that increase

3:2 Operating Review

3:2:1 Performance

The following observations are made.

- (a) Even though the maximum effective life of the cashew tree is 30 years, the effective life of trees in all estates, other than the Liluwankulama Estates had expired.
- (b) The estates belonging to the Corporation and particulars of their crops are given below.

Estate	Total Crop	Acreage	Average Crop per Acre
	Kilogrammes		Kilogrammes
Puttalam Estate	20,080	143	140
Kamandaluwa Estate	15,790	368	42
Hardy Estate	3,517	200	17.6
Eluwankulama Estate	55,000	200	275
	<u>94,387</u>	<u>911</u>	<u>103.6</u>

The average crop per acre of the cultivation is 103.6 kilogrammes per acre while the crop per acre in the private sector is 600 kilogrammes. The crop per acre in the other countries in the region is about 2,000 kilogrammes.

- (c) The standard rates and norms had not been established to determine whether the loss of weight and waste resulting from the production of cashew kernels from the cashew nuts remain at the standard levels.
- (d) The expenditure incurred on the extension of cashew cultivation and the Research and Development Division in the past 06 years is given below.

Year	Extension Expenditure	Research and Development Expenditure
	Rs. Million	Rs. Million
2005	5.6	23.1
2006	5.1	33.1
2007	5.7	38.6
2008	5.5	50.3
2009	5.1	55.6
2010	5.2	49.6

3:2:2 Management Inefficiencies

- (a) A sum of Rs.28,102 had been paid as a surcharge on the delay in the remittance of contributions to the Employees' Provident Fund.
- (b) Action had not been taken to transfer the ownership of the motor vehicle No. WPJY 8403 handed over to the Sri Lanka Cashew Corporation by a Project to the Corporation.

3:2:3 Budgetary Control

A budget for the year under review had not been prepared in terms of Section 8.3 of the Finance Act No. 38 of 1971 and Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

3:2:4 Human Resources Management

The following observations are made.

- i. There were 11 vacancies in the Management and Executive Grade posts of the Corporation while 10 vacancies existed in the non-executive grades as well.
- ii. Despite the existence of vacancies in 37 posts as at the end of the year under review 56 employees had been recruited on the casual and contract basis and 49 employees exceeding the approved cadre had been employed. The salaries and allowances paid to those employees in the year 2010 amounted to Rs.2,647,440.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Stores Control
- (c) Human Resources Management
- (d) Issue of Goods to Sales Stalls
- (e) Maintenance of Records of Valuable Trees and Replanting
- (f) Defective Computer System

H.A.S. Samaraweera
Acting Auditor General

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Answer to the Auditor General's Report in terms of the Section 14 (2) (c)
of the Financial Act no 38 of 1971 on the Financial Statements of the
Sri Lanka Cashew Corporation for the Year Ended
31st December 2010

- 2.2.1 (a) Will act accordingly in future.
- 2.2.1 (b) Relevant incentives have been allocated separately to the employees with a service period of more than 05 years and as a whole to the employees with a service period of less than 05 years.
- 2.2.1 (c) Relevant disclosures will be made accordingly in future.
- 2.2.1 (d) Noted it down to adhere to the relevant accounting standards in making relevant disclosures I , II , III and in carrying out other accounting work.
- 2.2.2.1 I Some of the capital grants being provided to the corporation are of a recurrent nature which cannot be capitalized by the corporation. As an example, fertilizer being provided for the crop extension activities being implemented by the corporation jointly with outside farmers could be pointed out. Although these values are received as capital grants, no assets that could be capitalized are created on the part of the corporation.
- Discussions were held with the control board on the accounting & audit standards with regard to the situation and these state capital grants have been accounted as per the instructions given at these discussions.
- 2.2.2.1 II Accounting work necessary in this regard will be carried out in future.
- 2.2.3.1 Necessary steps will be taken in future to draw up a relevant time analysis for the debtors' value herein mentioned. Also necessary actions will be taken to recover or write off from accounts books the loan amounts herein mentioned, relevant to the Kamandaluwa estate and the extension division.
- 2.2.4 All details of debtors and creditors herein mentioned are being updated through the computer system and steps will be taken in future to draw up time analysis on creditors.
- 2.2.5 (a) I , II Noted it down to act according to the relevant financial regulations in future.

2.2.5 (b) I The appointment of the Deputy Chairman was made in May 2007 by a letter signed by the Hon. Minister of the line Ministry under which the corporation had been functioning at the time, in terms of the section 10 of the State Agricultural Corporations Act no:11 of 1972. (As per the appointment letter by the Hon. Minister, the Deputy Chairman had also been appointed as a member of the board of directors of the corporation) Allowances and other facilities entitled to an acting director had been provided to the Deputy Chairman on the order of the Hon. Minister at the time.

Accordingly the current Deputy Chairman is also being paid the relevant allowances and is being provided the facilities from 17/05/2010 which is his date of appointment.

However, in order to resolve this problematic situation included in the audit query, a letter has been sent to the Director General of the Department of Public Enterprises by the Secretary to the line ministry A reply has not been received thus far.

2.2.5. (b.) II The payment of the telephone allowance to the chairman has been based on the circular no: PF/FS/05 of the Department of Public Enterprises. In addition to this, the following has been taken into consideration in making this payment.

- (a) The chairman and the board of directors were appointed at a time the corporation was facing difficulties in continuing it's operations, due to the reason that it had recorded a very low income for a period of about 15 years with the war going on in the northern & eastern areas. By that time all activities of the corporation had to be restricted according to the amount of funds being received from the treasury.
- (b) At the time the current chairman was appointed the corporation's financial condition had been at a very low level, that the treasury had to face severe problems in granting funds for it's continuation.
- (c) The corporation had been listed for closure, due to the difficulty of obtaining funds from the treasury for the cashew extension services, estate management services, marketing services and common development work of the corporation.
- (d) Definite instructions given by the government at the appointment of the current chairman had been to revive all development work of the corporation as soon as possible, to re-stabilize the corporation and thereby safeguard the livelihoods of its employees.

Accordingly, the current chairman frequently had to call all divisions of the corporation, outside offices and all those associated with the corporation's work during the office hours as well as outside of it and on holidays using his private telephone and mobile, for the purpose of organizing all work pertaining to the progress of the corporation.

Although the current chairman is fully entitled and has had full rights to purchase a residential phone and a mobile phone at the corporation's expenses, he has not obtained this facility from the corporation. Therefore, all sums that should have been spent in this regard remain without being spent. (Large expenses will have to be borne, if these facilities are to be provided by the corporation.)

Under the circumstances where office time (07-08 hours duration per day) is not at all adequate to attend to the accelerated development work of the corporation, the chairman is compelled to use his private residential telephone and mobile telephone for the better part of the day.

The total of the monthly bills of the chairman's residential and mobile phones amounts to nearly Rs.15, 500/= and only Rs.11, 694.15 is paid by the corporation, in terms of the circular PF/FS/05. This telephone allowance is also being paid out of the profits earned by the commercial division of the corporation.

By analyzing the financial reports and progress reports of development projects it is evident that this corporation which had financially come down to a lowest level and functioned encountering losses has gained rapid development within a period of a few months and is continuing its functions at the same time achieving significant progress in all divisions.

In pursuance of the objective of rapidly re-stabilizing a debilitated government corporation scheduled for closure, the application of telephone allowance limits commonly granted to government institutions is not at all sufficient to achieve a progress expeditiously. The cashew corporation operating on a commercial scale and working towards earning profits could not adhere to circulars for more than 08 years old, for the payment of telephone allowance which is also not practical. I propose that such circulars be amended to suit the present day on an annual basis.

2.2.5 (b) III A vehicle has been taken on rent as per the circulars issued by the treasury from time to time with regard to the hiring of vehicles on rent basis or on lease. Also this vehicle has been obtained on the concurrence and the approval of the secretary to the line ministry, and the approval of the tender board has also been received.

Also, the agreement for the hiring of vehicles has been legally prepared and signed.

2.2.5 (b) IV The decision to open the Mirijjawila Cashew Sales outlet was taken with the aim of attracting the local & foreign tourists, visiting Hambantota area, following the major development process taking place in the area of which the project for the construction of the Hambantota harbour acquires the main position. Accordingly, the sales outlet was constructed as an exhibition and sales outlet using local raw materials and in an attracting & creative manner. Since it was constructed as a temporary establishment approval from the Pradesheeya Sabha of the respective division was not required.

However, while these onstruction process is ongoing, the decision was taken to permanently build an internal part of the temporary building, on the instructions of Hon. R.M. Dharmadasa Banda, the then Minister of Complementary Crops development, utilizing the funds granted by his ministry. Accordingly, it was built permanently and all consideration works were completed.

The purchase of raw materials for the construction of the sales outlet was done on the quotations obtained by the Acting Regional Manager of Hambantota from the respective area. Owing to the major development programmes taking place in the Hambantota district it had been extremely difficult to find masons and carpenters with creative abilities and therefore the services of a contractor in Bibila area, who at the time had been engaged in the development work of the Mirijjawila estate was obtained for the artistic and creative construction of the building.

2.2.5 (b) V In terms of the provisions of P.A.C 22/29, transport facilities Could be provided to enior level officers, approved by the secretary to the Ministry on the decision of the Board of Directors of State Corporations. Since the managers of Grade MII serving at the Cashew corporation's head office, are the most senior managers of the institution, they are entitled to transport facilities as per the provisions of the above said circular.

However, owing to the fact that the corporation does not possess adequate number of vehicles and also its inability to bear large expenses in this regard, these officers have been granted a transport allowance. This transport allowance of Rs.5000/= has not been paid to all staff officers of the corporation and only 05 managers of Grade MII are being paid this allowance.

Also a request was made to the administration of the Cashew corporation by the employees of the Sri Lanka Cashew Corporation to grant them a traveling allowance as some kind of relief for the financial difficulties that they had to encounter due to the increase of the general transport service fees in the country.

The request had been forwarded to the Hon. Minister of the line ministry under which the corporation had been functioning at the time and the line Minister had granted his approval subject to the approval of the Director Board.

Therefore, the approval of the Board of Directors was also received in this regard. Accordingly, this transport allowance of Rs.1500/= is being paid to permanent and contract basis employees with the exemption of above mentioned Grade MII managers and officers provided with a vehicle for transportation and officers occupying corporation's official quarters. This has been arranged to be paid from the profit being earned by the corporation's commercial division.

- 2.2.5 (b) VI These holiday pay allowances have been obtained for field work carried out on the prior verbal approval of the administration for the purpose of carrying out urgent and essential duties and holiday pay will be granted on prior approval also in future.
- 3.2.1 (a) Plan necessary for the new cultivations of estates have been prepared according to the funds available with the corporation and it is expected to focus on this in future. Meanwhile, necessary action is being taken to carryout new cultivations & other development work of the corporation's estates with the participation of private sector investors and with the involvement of the line ministry.
- 3.2.1 (b) A majority of the crops in the corporation estates are past their commercially productive lifetimes and this has directly paved the way for this situation and the damage done by wild elephants and other wild animals in some estates had an impact on this material-wise.

It is expected that the ability to gain a high yield, by avoiding this situation will be achieved in future by means of the proposed development programmes.

- 3.2.1 (c) Necessary action to establish the standards herein mentioned is being taken.
- 3.2.1 (d) This audit query does not contain any matter for which an answer should be given.
- 3.2.2 (a) Owing to the unfavourable financial conditions that prevailed during the relevant period, the payment of employees provident fund contributions got delayed. We are of the opinion that it is not appropriate to consider the surcharges that had to be paid owing to this delay as uneconomic expenses.
- It is indicated that these kind of delays are unavoidable since money had to be spent for essential tasks that had to be carried out according to the particular situation and according to the prevailing financial conditions.
- 3.2.2 (b) The value of the vehicle no WPJY-8403 has not been brought to account as its ownership is vested with another institute. Necessary actions are being taken to transfer its ownership to the corporation.
- 3.2.3 This will be adhered to in future.
- 3.2.4 I, II Employees qualified for the 37 vacancies herein mentioned have been recruited on casual and contract basis and the remaining 19 employees have been recruited with the aim of implementing development work within the northern and eastern provinces.
- Discussions are underway to formulate the necessary action for the inclusion of those employees to the approved cadre.
- 4 Special attention will be paid to this subject area in future and action will be taken accordingly.

Sri Lanka Cashew Corporation

Five Year Summary

	2010 (Rs. 000)	2009 (Rs. 000)	2008 (Rs. 000)	2007 (Rs. 000)	2006 (Rs. 000)
PROFIT & LOSS ACCOUNT					
Net Salaes	71,171	64,678	81,423	48,431	48,451
Cost of sales	(50,135)	(42,200)	(64,208)	(33,350)	(35,742)
Gross Profit	21,036	22,478	17,215	15,081	12,709
Other income	1,301	1,829	1,660	4,499	319
Recurrent Grant	16,959	42,500	37,620	35,185	-
Administration Expenses	(29,403)	18,072)	(12,768)	(10,032)	(8,808)
Amortization	(3,590)	(3,428)	(3,359)	(3,359)	(2,910)
Net Profit From Commercial Sector	6,303	45,307	40,368	41,374	1,310
Expenses Over Income From Service Sector	(21,358)	(57,066)	(48,807)	(45,196)	(18,333)
Net Loss	(15,055)	(11,759)	(8,439)	(3,822)	(17,023)
BALANCE SHEET					
Non Current Assets					
Propety Plant & Equipment	4,506,381	70,232	44,516	44,877	38,670
Mature Area Expenditure	67,803	71,401	73,307	76,666	71,040
Capital Working Progress	-	385	-	-	-
Immature Area Expenditure	41,039	38,325	43,138	38,274	39,371
Other Small Projects	807	609	789	187	132
Total Non Current Assets	4,616,030	180,952	161,750	160,004	149,213
Current Assets					
Stock	25,102	30,688	20,322	6,200	12,416
Trade Debtors & Other Receivables	10,916	14,996	3,089	8,117	9,585
Advance & Prepayments	2,480	1,456	2,073	5,794	3,340
Cash & Cash Equivalentents	5,864	13,619	10,234	5,095	4,048
Total Current Assets	44,362	60,759	45,718	35,206	29,389
TOTAL ASSETS	4,660,392	241,711	207,468	195,210	178,602
Equity & Liabilities					
Equity					
Government Grant	251,952	244,032	238,471	225,937	207,048
Grant from Other Parties	13,570	13,570	4,258	4,258	4,258
Capital Reserves	4,464,178	23,676	513	513	513
Profit & Loss Account	(109,252)	(101,552)	(89,793)	(80,867)	(77,044)
Total Equity	4,620,448	179,726	153,449	149,841	134,775
Non Current Liabilities					
Provision for Gratuity	24,451	22,911	22,747	23,083	19,608
Total Non Current Liabilities	24,451	22,911	22,747	23,083	19,608
Current Liabilities					
Trade Creditors & Other Payables	15,492	39,075	31,272	22,286	24,219
Total Current Liabilities	15,492	39,075	31,272	22,286	24,219
TOTAL EQUITY & LIABILITIES	4,660,391	241,712	207,468	195,210	178,602
Return on Net Assets	%	(0.33)	(6.54)	(5.50)	(2.55)
Net Profit Ratio	%	(21.2)	(18.2)	(10.4)	(7.9)
Current Ratio	Times	2.9	1.6	1.5	1.6
Quick Asset Ratio	Times	1.2	0.8	0.8	0.8
Total Income to					
Total Expenditure		0.9	0.9	0.9	0.1