



ශ්‍රී ලංකා කැෂු සංස්ථාව

இலங்கை மரமுந்திரிகை கூட்டுத்தாபனம்

SRI LANKA CASHEW CORPORATION

වාර්ෂික වාර්තාව සහ ගිණුම්
வருடாந்த கணக்கும் அறிக்கையும்
ANNUAL REPORT AND ACCOUNTS

2016

<u>Contents</u>	<u>Page No.</u>
1. Chairman's Review	1-18
♦ Vision, Mission, Goals and Objectives of the Corporation	
♦ Brief profile of the directors and senior management	
2. Directors Report	19-22
3. Audit & Management committee Report	23-25
4. Performance Report	26-28
5. Mid term strategies to be implemented by Sri Lanka Cashew Corporation to upgrade its performance	29-33
6. Audited Financial Statements	34-52
7. Report of the Auditor General on the financial statement in terms of section 14 (2) (c) of the finance Act No. 38 of 1971	53-67
8. Action taken to rectify the short comings mentioned in the Audit General's Repor	68-80
9. Financial Highlights in the proceeding 5 years	81



Sri Lanka Cashew Corporation

Chairman's Report for the Year 2016

(01) Establishment of the Sri Lanka Cashew Corporation

Sri Lanka Cashew Corporation (SLCC) was established under the State Agricultural Corporations Act no: 11 of 1972 as per the Gazette Extraordinary No: 60/7 dated 25th May 1973. From its inception, the Corporation is functioning as a public enterprise mainly providing services to the industry while engaging in commercial activities on a profit earning basis.

- **Vision**

Making Sri Lanka one of the leading cashew exporting countries in the world through the production of high quality cashew.

- **Mission**

Uplifting the cashew industry in a manner that ensures long term commercial potentiality by providing professional guidance to farmers and relevant parties to improve cashew cultivation, production, processing technology, value addition, research and marketing activities.

Targets

- Improving the cashew harvest through the diffusion of cashew cultivation.
- Enhancing the productivity of the cashew processing industry and of estates.
- Creating a globally accepted trade name for Sri Lankan cashew.
- Value addition and the development of new products.

- Encouraging cashew exports.
- Making Sri Lanka the leader of cashew production.
- Becoming a self-sufficient State Corporation through profit earning.

Objectives

- (a) Cultivation, processing and marketing of cashew and formulating plans with regard to the cashew production, processing and marketing and providing instructions for their implementation.
- (b) Conducting investigations and research with the objective of enhancing the cashew cultivation, processing and marketing and its production, processing and marketing.
- (c) Collecting, processing, publicizing and distributing technical, marketing and other information with regard to the cultivation, processing and marketing of cashew and its production, processing and marketing and liaising with others in the implementation of such activities.
- (d) Determining the locations of cashew & cashew products processing factories, their extent and the technical standards and establishing new factories and activating existing factories when necessary.
- (e) Purchasing, distributing, marketing and exporting cashew and cashew products.
- (f) Facilitating the training of persons required for the cultivation, processing and marketing of cashew and its production, processing and marketing.
- (g) Establishing the fundamental organizations required for the development of cashew cultivation, processing facilities and marketing and assisting in their establishment.

- (h) Initiating measures as deemed necessary for the popularization of cashew products and their sale, promoting the existing demand for these products in the world markets, financing the promotional or any other incidental activities, controlling, assisting and sponsoring such activities.

(02) Board of Directors of the Sri Lanka Cashew Corporation -2016

(2.1) Members of the Board of Directors of the Corporation for the duration of the period from 01.01.2016 up to 23.02.2016

- (i) **Mr. D B Karunaratne** - **Chairman**
(ii) Mr. M W M Bandaratilleka - Deputy Chairman
(iii) Mr. R K Jayalath - Member, Board of Directors
(Representative of the General Treasury)
(iv) Mr. M R M I Riza - Member, Board of Directors
(v) Mr. V Manchanayaka - Member, Board of Directors

(2.2) Members of the Board of Directors appointed from 24.02.2016

- (i) **Mr. D B Karunaratne** - Deputy Chairman
(ii) Mr. M W M Bandaratilleka - Deputy Chairman
(iii) Mr. R K Jayalath - Member, Board of Directors
(Representative of the General Treasury)
(upto 27.04.2016)
(iv) Mrs. A A D S Atapattu - Member, Board of Directors
(Representative of the General Treasury)
(from 26.05.2016)
(v) Mr. M.R.M.I. Riza - Member, Board of Directors
(vi) Mr. V Manchanayaka - Member, Board of Directors
(vii) Mr. K Lingaraja - Member, Board of Directors
(viii) Mr. A S M Fazmi - Member, Board of Directors

Secretary to the Board of Directors for 2016 Mr. V U Liyanage (upto 30.3.2016)
Mr. Keerthi Jayakodiachchi (General Manager) (from 27.4.2016)

(2.3) The Audit and the Management Committee of the Sri Lanka Cashew Corporation - 2016

- (i) Mr. R K Jayalath - Committee Chairman
Member, Board of Directors - Representative of the General Treasury (upto 28.04.2016)
- (ii) Mrs. A A D S Atapattu - Committee Chairperson
Member, Board of Directors - Representative of the General Treasury (from 23.06.2016)
- (iii) Mr. V Manchanayaka - Committee Member
Member, Board of Directors
- (iv) Mr. M R M I Riza - Committee Member
Member, Board of Directors
- (v) Mr. V U Liyanage - Committee Secretary
Assistant General Manager - Internal Audit (upto 30.03.2016)
- (vi) Mr. D K Jayakodiarachchi - Committee Secretary
General Manager - (from 28.04.2016)
- (vii) Mr. P B Kodikara - Committee Member
Deputy General Manager (upto 21.09.2016)
- (viii) Mr. M T S K Pieris - Committee Member
Assistant General Manager - Finance (upto 21.09.2016)

(2.4) Senior Management of the Sri Lanka Cashew Corporation – 2016

- (i) Mr. D K Jayakodiarachchi - General Manager
- (ii) Mr. P B Kodikara - Deputy General Manager

(2.5) Board of Management of the Sri Lanka Cashew Corporation

- (i) Mr. M T S K Pieris - Assistant General Manager-Finance
- (ii) Mr. G B B Surendra - Assistant General Manager-Extension & Research
- (iii) Mr. V U Liyanage - Assistant General Manager-Internal Audit
- (iv) Mr. R M P Jayathissa - Assistant General Manager-Marketing & Processing
- (v) Mr. P M A P K Wijetunga - Assistant General Manager - Plantation

(2.6) Registered Offices

Head office and Regional Offices

Head Office

Sri Lanka Cashew Corporation, No: 1334, Old Kotte Rd, Rajagiriya.

Telephone

Chairman - 011 2 871 005

Deputy Chairman - 011 2 869 844

General Manager - 011 2 876 134

Fax - 011 2 867 843

E-mail - cashewco@dialogsl.net

Web address - www.cashew.lk

Regional Offices, Estates, Plant Breeding Centers and Processing Units.

(2.7)

Regional Offices

Districts being covered

- | | |
|----------------------------------|---|
| 1. Puttlam Regional Office | - Puttlam / Kurunegala |
| 2. Hambantota Regional Office | - Hambantota / Ratnapura |
| 3. Anuradhapura Regional Office | - Anuradhapura / Vavuniya /
Mannar / Mulaitivu |
| 4. Nalanda Regional Office | - Matale / Polonnaruwa |
| 5. Moneragala Regional Office | - Moneragala |
| 6. Mahiyanganaya Regional Office | - Kandy / Badulla |
| 7. Ampara Regional Office | - Ampara |
| 8. Batticaloe Regional Office | - Batticaloe / Trincomalee |
| 9. Kilinochchi Regional Office | - Kilinochchi / Mulaitivu / Jaffna |
| 10. Mannar Regional Office | - Vavuniya / Mannar |

(2.8)	<u>Estates</u>	<u>District</u>
	1. Kamandaluwa Estate	- Puttlam
	2. Puttalama Achchigewatte Estate	- Puttlam
	3. Eluwankulama Estate	- Puttlam
	4. Hardy Estate	- Batticaloe
	5. Mankerni Estate	- Batticaloe
	6. Kondachchi Estate	- Mannar - (being developed through the public private joint project)
	7. Poonerin Estate	- Kilinochchi - (being run by the Army)
	8. Madu Estate	- Mannar - (crop rehabilitation is expected)
	9. Oyamaduwa Estate	- Anuradhapura

(2.9)	<u>Plant Breeding Centres</u>	<u>District</u>
	1. Wilachchiya Seed Garden	- Anuradhapura
	2. Nalanda Seed Garden	- Matale
	3. Mahaoya Seed Garden	- Ampara
	4. Suduwathura Ara Seed Garden	- Moneragala

(2.10)	<u>Central Plant Nurseries</u>	<u>Districts being covered</u>
	1. Mihintale Plant Nursery	- Anuradhapura / Vavuniya / Mannar / Kilinochchi / Mulaitivu
	2. Dambulla Plant Nursery	- Matale / Polonnaruwa
	3. Kamandaluwa Plant Nursery	- Puttlam / Kurunegala
	4. Hardy Plant Nursery	- Batticaloe / Trincomalee
	5. Kumbukkana Plant Nursery	- Moneragala
	6. Aluththarama Plant Nursery	- Badulla / Kandy
	7. Chandrika Weva Plant Nursery	- Hambantota / Rathnapura

(2.11)	<u>Cashew Processing Centers</u>	<u>District</u>
	1. Nendagamuwa Processing Centre	- Gampaha
	2. Puttlam Processing Centre	- Puttlam

15. Central Province Multi Service Cooperation Society Ltd, Ehalepola
Kumarihami Mawatha, Bogambara, Kandy.
16. Poojapitiya Multi Service Cooperation Society Ltd, Poojapitiya.
17. Harispattuwa North Multi Service Cooperation Society Ltd, Mathale Road,
18. Kundasale Multi Service Cooperation Society Ltd, Manikhinna.
19. Kandy Multi Service Cooperation Society Ltd, Coop City, Pallekale.
20. Kandy Multi Service Cooperation Society Ltd, Coop City, Mathale.
21. Kandy Multi Service Cooperation Society Ltd, Coop City, Laggala.
22. Sri Lanka National Hunger Eradication Movement, No: 21, Galle Road,
23. Udamsa Milk Bar, 978 D 3, Pannipitiya Road, Pelawatte.
24. Palmyrah Development Board, Galle Road, Bambalapitiya.
25. Palmyrah Development Board, Kankasanthurei, Jaffna.
26. Palmyrah Development Board, Near Nallur Kovil, Jaffna.
27. Palmyrah Development Board, Hospital Road, Jaffna.
28. Palmyrah Development Board, Main Street, Vavuniya.
29. On Ro Pharmacy No: 25, Nagoda Road, Katukurunda.
30. Golden Maid, 144, Galle Road, Ahangama.
31. New Monis Bakery, Galle Road, Maggona.
32. Kandy Lines, Park Road, Kegalle.
33. Sagara Bakers, Anguruwathota Road, Horana.
34. Roy Grocery, Matugama Road, Katukurunda Junction, Kalutara.
35. Harischandra Mills, Talbot Street, Galle.
36. J F Tours & Travels, Jawatte Road, Bambalapitiya.
37. Colombo Cricket Club, Maitland Crescent, Colombo 07.
38. EPPCO Mini Mart, Main Street, Mawanella.
39. Lion Grocery, Makumbura, Pannipitiya Road, Kottawa.
40. DGM Agriculture Dept., Matara.
41. Abeygunawardena Stores, Deniyaya.
42. Thalagala Stores, Thalagala.
43. Coop City, Kundasale.
44. Sepco Super, Bogambara.
45. DGM Agriculture Dept., Galle.
46. Panorama Chinese Restaurant, Kottawa.
47. Master Shopper, Colombo 01.
48. Ruhunu Rasara, Matara.
49. Ruhunu Rasara, Labudoowa.
50. Abeywardena Stores, Deniyaya.

(3.1.2) Extension of Cashew Cultivation Areas and Upliftment of National Production

(3.1.2.1) Increasing the Areas of Cultivation

The total estimated area of cashew cultivation in Sri Lanka is 142608 acres. In 2016, under the subsidy programme, 2500 acres of bud grafted cashew and 2000 acres of seedling cashew have been cultivated in 18 districts covering 125 divisional secretary's divisions. Under this 3298 beneficiary families have been benefitted.

Cashew Cultivation Subsidy Programme

District	Bud Grafted Cashew (acres)	Cashew Seedlings (acres)
1. Puttlam	400	-
2. Kurunegala	300	-
3. Hambanthota	200	-
4. Anuradhapura	550	-
5. Ampara	-	400
6. Badulla	150	-
7. Kandy	25	-
8. Ratnapura	25	-
9. Mathale	150	-
10. Polonnaruwa	150	-
11. Moneragala	250	-
12. Batticaloe	50	350
13. Trincomalee	50	300
14. Vavuniya	50	200
15. Mannar	25	250
16. Mulaitivu	75	300
17. Kilinochchi	50	150
18. Jaffna	-	50
Total	2500	2000

(3.1.2.2) Payment of Subsidies to Farmers, under the cashew cultivation subsidy programme

Under this subsidy programme, allocations have been made for the payment of a subsidy of Rs. 9,500/- per acre for bud grafted cashew cultivation and for the payment of a subsidy of Rs. 3,500/- per acre for seedling cashew cultivation. However, the amount thus allocated is hardly sufficient for this task. At present, training on farming and other extension services are being provided free of charge to selected farmers under the subsidy programme and bud grafted cashew plants and seedlings are being distributed free of charge according to the extent of the lands under cultivation. These activities are being implemented through 10 regional offices of the Corporation in 18 cashew cultivating districts.

(3.1.2.3) Expansion of Extension Services

With a view to expanding the extension services, a regional office was established for Mannar district, which would cover both Mannar & Vavuniya Districts.

(3.2) Development of Estates, Rehabilitation & Productivity Development

(3.2.1) Enhancing the Productivity of Cashew Cultivation

(3.2.1.1) Planting Material Production

13.91 Metric tons mother seeds were produced at plant breeding centers of the Corporation using Good Agricultural Practices (GAP). 264000 twigs obtained from these mother seeds and mother trees were used in the production of bud grafted plants and seedlings.

Plant Breeding Centre	District	Area in extent (acres)
1. Wilachchiya	Anuradhapura	25
2. Nalanda	Matale	75
3. Mahaoya	Ampara	81
4. Suduwathura Ara	Moneragala	50
Total		231

(3.2.1.2) Nursery Management

209125 bud grafted plants of high quality new varieties were produced at the central nurseries of the Corporation and were issued for the subsidy programme and to private estate owners.

Production of Budded Plants in 2016

Name of the Plant Nursery	Budded Plants Produced
1. Kamandaluwa	38602
2. Dambulla	29768
3. Mihintale	79846
4. Aluththarama	19044
5. Kumbukkana	18701
6. Hardy	7401
7. Chandrika Wewa	15763
Total	209125

46 plant nurseries have been established in Batticaloe, Trincomalee, Vavuniya, Mannar, Mulaitivu, Kilinochchi, Jaffna and Ampara in order to produce 78500 seedlings required for the subsidy scheme.

(3.2.1.3) New Cultivation in Estates

Extensive development works were carried out in Puttlam, Kamandaluwa, Eluwankulama, Hardy, Oyamaduwa, Mankerni, Batticaloe estates of the Sri Lanka Cashew Corporation. While implementing these programmes, particularly in developing the Kondachchi Estate in the Northern Province and Mankerni Estate in the Eastern province, the assistance of the Department of Civil Security was obtained. The technical assistance and the cashew plants for cultivation were provided by the Corporation. Steps were taken under the direct supervision of the Corporation to prepare the ground in 150 acres of land for new cultivation and to plant cashew plants in 100 acres within the Kondachchi estate. The estates in Poonerin are functioning in

the custody of the Sri Lanka Army and advisory services for their maintenance are being provided continuously. In addition to this, rehabilitation works were carried out in 2000 acres of mature cashew cultivations belonging to the Corporation and chemical fertilizers and chemical pesticides were provided to the estates.

(3.2.1.4) Enhancing the Productivity

With a view to eliminating pests and preventing diseases affecting cashew cultivation and also enhancing the productivity by adopting Good Agricultural Practices (GAP), a new chemical compound has been successfully experimented with and 150 farmers have been trained in this respect. In addition to this, training programmes on Post Harvest Technology were conducted for farmers in the Mulaitivu and Puttlam districts, under the sponsorship of the National Estate Management Institute.

(3.3) Development of Marketing and Processing Industry

(3.3.1) Post Harvest Technology Development

(3.3.1.1) Purchasing of Raw Cashew from Farmers

Within the objective of reducing costs and facing the competitive market conditions, the Corporation purchased cashew kernels from small scale processors this year,

Instead of purchasing raw cashew from farmers which resulted in the establishment of a competitive price range in the market. The cashew harvest of 109 metric tons, collected from the Corporation's estates was processed at the factories of the Corporation.

(3.3.1.2) Strengthening the Cashew Processing Industry

In order to earn a higher price by forwarding high quality cashew kernel products to the market, an advanced manufacturing mechanism is essential.

Under this programme, cashew processors were provided with ovens and electric cashew cutting machines and they were trained with regard to the Good Manufacturing Practices

(GMP), value addition and standards. Also processing societies were given assistance in obtaining financial facilities and in the market promotion. 03 training programmes were conducted for the farmers and small scale entrepreneurs in the Mulaitivu and Mannar districts on processing of cashew in the year 2016. Under this, training has been given to more than 100 farmers.

(3.3.3) Processing and Marketing of Cashew

Cashew Processing Centres owned by the Corporation are located in Puttlam and Nedagamuwa (Gampaha District). Raw cashews gathered from the estates of the Corporation are processed and the value added cashew kernels are marketed through the Corporation's two sales outlets in Kolpetty and Rajagiriya. In addition to this a new cashew sales outlet of the Sri Lanka Cashew Corporation was opened on the premises of the Pinnawala Elephant Orphanage in 2016 with a view to strengthening the sales and the distribution network. The sales work was carried out to cater to the needs of the customers through 51 authorized sales outlets, established island wide.

Cashew apple chutney and pepper sprinkled cashew have been introduced to the market in 2016. The Corporation has been able to earn Rs. 84.59 million from the sale of high quality cashew products using new technological methods and through value addition.

(3.3.4) Export of Cashew Products and Earning of Foreign Exchange.

(3.3.4.1) In the year 2016, Sri Lanka has earned Rs. 99.97 million foreign exchange by forwarding 57.64 metric tons of value added cashew kernels and high quality cashew kernels to the international market. Rs. 174.06 million foreign exchange has been earned by exporting 105.66 metric tons of value added cashew kernel in the year 2015. Even though a minor reduction in export capacity and foreign exchange earning was experienced this has been the result of the

increase of the local demand for cashew kernels with the rapid growth of the tourism industry, which in turn lead to the increase of the local consumption of cashew kernels.

(3.3.5) Import of Cashew

(3.3.5.1) Import of Cashew for Local Consumption

With the increase of the local consumption of cashew and the decline in the cashew harvest due to climatic changes, namely, the heavy rains experienced during the flowering season, the small scale processors experienced a shortage of raw cashew in the local market during the months of January, February and March. As a solution to this, licenses were provided to small scale cashew processors to import raw cashew under tax reliefs. As per the reports of the customs, 1622 metric tons of raw cashew and 263 metric tons of cashew kernel were imported by small scale producers and distributed among a large number of processors. Thus, the Corporation had the opportunity of intervening in stabilizing the livelihoods of families engaged in the cashew processing industry.

(4.0) Research & Development

Continuous research programmes have been carried out with regard to plant breeding, use of fertilizers, pest control of cashew crops, experimenting with various technological methods of bud grafting, bud grafted and seedling cashew cultivation, harvesting and intercropping. These programmes were implemented jointly with the Faculty of Agriculture and Plantation Management of the Wayamba University. The progress of these programmes was evaluated by the Research and Management Committee. The outcomes of these researches were made available to the farmers when they are given advisory services through the extensions service network as well as by means of field models, leaflets, videos and television programmes.

(5.0) Budget

(5.1)

Category	Investment of Funds 2016 (Rs. Million)		
	Government Investment	Funds Generat	Total
Capital Expenditure	40.0	2.9	42.9
Recurrent Expenditure	48.0	80.7	128.7
Total	88.0	83.6	171.6

(5.2) Earnings of 2016 through commercial activities

	(Rs. Million)
Sale of cashew kernels	86.19
Sale of cashew mother seeds and plants	7.33
Sale of coconuts	1.43
Total	<u>94.95</u>

(6.0) Administration

(6.1) With the aim of providing a quality & an efficient service to cashew small holders, cashew processors and to customers, formal management applications were employed. The assistance of all of the stakeholders of the Corporation was obtained, as the Corporation acts as a public enterprise providing services with a view to earning profits. The unrestricted assistance of the Board of Directors, General Manager, Deputy General Manager and Assistant General Managers and the entire staff was also secured.

Accordingly, the Corporation was able to align itself with the new development strategies of the government with a view to generating incomes for the public and to fulfilling the objectives of the Corporation.

(6.2) Staff as at 31.12.2016

Approved Staff		Staff as at 31.12.2016
Higher Management Grade (HM)	02	02
Middle Management Grade (MM)	07	05
Junior Management Grade (JM)	26	20
Management Assistant (MA)	122	95
Minor Grade (PL)	67	71
Total	224	193

In addition to this, about 350 check roll labourers have been employed according to monthly requirements in processing centers, estates, plant breeding centers and central plant nurseries of the Corporation.

(7.0) Achievements

The Corporation was able to maintain the profit earning status recorded in 2014 and 2015, throughout the year 2016. The commercial operations of the Corporation and the productive and the efficient guidance given by the Board of Directors and the dedication of the staff, all contributed towards the accomplishment of this feat.

The net profit earned by the Corporation during the year 2016 through commercial activities is Rs. 31.6 millions.

Owing to the following drawbacks the profit earned could not be elevated to a higher level than what has been generated.

- The drop of the cashew yield of states from expected levels due to inclement weather conditions, viz, heavy rainfall during the flowering season.
- The cashew products having excessive prices owing to the inadequate supply of raw cashew to meet the local demand.
- High labour cost and material cost.

- The Corporation suffered drawbacks in initiating new programmes as well as fulfilling essential services due to the limiting of recurrent and capital grants. Hence, the funds generated by the Corporation had to be utilized in continuing these activities. As a repercussion of this, a lack of funds to be invested in commercial and development activities resulted.

(8.0) Acknowledgement

During the year 2016, all services and commercial activities of the Sri Lanka Cashew Corporation were implemented successfully and I wish to offer my heartfelt gratitude to the Board of Directors for their cooperation extended to me in accomplishing this feat.

In particular, the General Manager, the Deputy General Manager, Assistant General Managers and all staff members worked tirelessly with much dedication in executing all activities of the Corporation efficiently and with a high productivity level and my sincere appreciation goes to them for the services rendered.

The support extended and the commitment made by all stake holders including small scale cashew processors, cashew products exporters, cashew small holders, government and nongovernmental organizations had been instrumental in establishing this level of success.

Also, I acknowledge and wish to express my sincere gratitude to the Hon. Kbhira Hashim, Minister of State Enterprises Development, the Deputy Minister, the Secretary to the Ministry and the Ministry Staff for their invaluable guidance.

Damsiri Bandara Karunaratne
Chairman
Sri Lanka Cashew Corporation

Board of Directors Report

I am herewith forwarding the audited financial statement for the year ended 31st December 2016, on behalf of the Board of Directors of the Sri Lanka Cashew Corporation.

As per the circular no: PED/12 dated 02nd June 2003, issued by the Director General of the Department of Public Enterprises of the General Treasury, the financial statement of the Sri Lanka Cashew Corporation was forwarded to the Auditor General before the 28th of February 2016.

Establishment

The Sri Lanka Cashew Corporation was established on the 25th of May 1973, with an initial capital of Rs. 40 million, under the gazette notification 60/7, published in terms of the subsection 1 of the section 2 of the Agricultural Corporations Act no: 11 of 1972, approved by the Sri Lankan government and on the order of the then Minister of plantation industries.

Outcomes

The financial outcomes and data on the change of equity in the current year are disclosed in the financial statement and the statement on the change of equity.

Business Review

The financial position of the Sri Lanka Cashew Corporation for the year ended 31st December 2016 was given in the statement of financial position an evaluation of which has been included in the chairman's report.

Property Plant and Equipment

The changes which took place in respect of the property plant and equipment during the current year are given at no: 1, in the financial statement. The values shown in this note do not have quantitative changes with their current market value.

Main Activities

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

- Cultivation, processing and marketing of cashew and formulating plans with regard to the cashew production, processing and marketing and providing instructions to the Minister for their implementation.
- Taking measures for the cultivation, processing and marketing of cashew and for the production, processing and marketing of cashew.
- Conducting investigations and research with the objective of enhancing the cashew cultivation, processing and marketing and its production, processing and marketing.
- Collecting, processing, publicizing and distributing technical, marketing and other information with regard to the cultivation, processing and marketing of cashew and its production, processing and marketing and liaising with others in the implementation of such activities.
- Determining the locations of cashew & cashew products processing factories, their extent and the technical standards and establishing new factories and activating existing factories when necessary.
- Purchasing, distributing, marketing and exporting cashew and cashew products.
- Facilitating the training of persons required for the cultivation, processing and marketing of cashew and its production, processing and marketing.
- Establishing the fundamental organizations required for the development of cashew cultivation, processing facilities and marketing and assisting in their establishment.
- Initiating measures as deemed necessary for the popularization of cashew products and their sale, promoting the existing demand for these products in the world markets, financing the promotional or any other incidental activities, controlling, assisting and sponsoring such activities.

Reserves

The composition of the total reserves of the corporation are mentioned in the statement on the change of equity.

Board of Directors

The Board of Directors appointed as at 31st December 2016 is as follows.

- (1) The members of the Board of Directors of the corporation from 01.01.2016 upto 23.02.2016

(i)	Mr. D B Karunaratne	Chairman
(ii)	Mr. M W M Bandaratileke	Deputy Chairman
(iii)	Mr. R K Jayalath	Member of the Board of Directors (Representative of the General Treasury)
(iv)	Mr. M R M I Riza	Member of the Board of Directors
(v)	Mr. V Manchanayaka	Member of the Board of Directors

- (2) Members of the Board of Directors of the corporation from 24.02.2016

(i)	Mr. D B Karunaratne	Chairman
(ii)	Mr. M W M Bandaratileke	Deputy Chairman
(iii)	Mr. R K Jayalath	Member of the Board of Directors (Representative of the General Treasury) (upto 27.04.2016)
(iv)	Mrs. A A D S Atapattu	Member of the Board of Directors (Representative of the General Treasury) (from 26.05.2016)
(v)	Mr. M R M I Riza	Member of the Board of Directors
(vi)	Mr. V Manchanayaka	Member of the Board of Directors
(vii)	Mr. K Lingaraja	Member of the Board of Directors
(viii)	Mr. A S M Fazmi	Member of the Board of Directors

Secretary to the Board of Directors for the year 2016 - Mr. V U Liyanage
(upto 30.03.2016)

Mr. Keerthi Jayakodiarachchi (General Manager) (from 27.04.2016)

Audit Committee

The Audit Committee of the Corporation has been established in accordance with the Public Enterprises Guidelines.

Statutory Payments

Statutory payments payable to the government and the employees have been duly paid.

Environment Safety

The corporation has not been involved in any activity harmful to the environment.

Events after the date of the statement of the financial position

No event has been reported for disclosure or for adjustment through accounts after the balance sheet date.

Auditors

The financial statement of the Sri Lanka Cashew Corporation for the year ended 31st December 2016 has been audited by the government Auditor General. By

the order of the Board of Directors,

Keerthi Jayakodiarachchi

Secretary to the Board of Directors

Audit and Management Committee Report

The Audit and Management Committee of the Sri Lanka Cashew Corporation was established in terms of the Public Enterprises Department Circular no: 31 of 01.07.2005 (PED 31), as amended by Public Enterprises Department Circular no: 51, 53 and 55 (PED 51, PED 53 and PED 55) and is comprised of 08 persons including seven members and an observer.

A non-executive director who is the treasury representative acted in the post of committee chairman and the General Manager of the Corporation/ Secretary to the Board of Directors acted in the post of committee secretary.

During the year 2016, the Audit and Management Committee was convened 04 times and the participation of the committee members and the observers in these meetings had been in the following manner.

- | | | | | |
|-----|---|---|-----------------------|-----|
| 01. | Mr. R K Jayalath | : | Committee Chairman | 1/1 |
| | Non executive member of the Board of Directors - upto 28.04.2016
(Treasury Representative) | | | |
| 02. | Mrs. A A D S Atapattu | : | Committee Chairperson | 3/3 |
| | Non executive member of the Board of Directors - from 23.06.2016
(Treasury Representative) | | | |
| 03. | Mr. V P Manchanayake | : | Committee Member | 4/4 |
| | Non executive member of the Board of Directors | | | |
| 04. | Mr. M R M I Riza | : | Committee Member | 3/4 |
| | Non executive member of the Board of Directors | | | |
| 05. | Mr. D K Jayakodiachchi | : | Committee Secretary | 4/4 |
| | General Manager/ Secretary to the Board of Directors - from 27.04.2016 | | | |
| 06. | Mr. P B Kodikara | : | Committee Member | 3/3 |
| | Deputy General Manager - upto 21.09.2016 | | | |

- | | | | | |
|-----|--|---|---------------------|-----|
| 07. | Mr. M T S K Pieris
Assistant General Manager - Finance - upto 21.09.2016 | : | Committee Member | 3/3 |
| 08. | Mr. V U Liyanage
Assistant General Manager - Internal Audit and Secretary to the Board of Directors
(acted as the Secretary to the Board of Directors and Secretary to the Committee upto 30.03.2016 and acted as a member of the Committee from 27.04.2016) | : | Committee Secretary | 4/4 |
| 09. | Mrs. R P S Padmini
Audit Superintendant
(Auditor General's Department) | : | Committee Observer | 3/3 |
| 10. | Mrs. H P K Subadra
Audit Inspector - only for 23.06.2016 | : | Committee Observer | 1/1 |

At the first audit and management meeting of the year 2016, the report forwarded by the Sri Lanka Cashew Corporation in respect of the progress achieved for the first quarter of 2016 through its overall activities, the observations incorporated into the audit reports issued to the management by the internal audit branch of the corporation in the first quarter of 2016 and the report submitted on the courses of action taken by the management based on these observations, were extensively reviewed.

At the second audit and management committee meeting held in respect of the year 2016, the committee focused on the report on the comments and courses of actions proposed to be adopted on the corporation's part in respect of the audit paragraphs included in the Audit General's Report forwarded in terms of Section 13 (7) of the Financial Act for the year 2015.

Accordingly, each audit observation included in the report were taken separately and the comments and courses of action proposed to be taken with regard to the matters contained therein, which had been presented in the draft report submitted to the committee were extensively discussed. The Audit and Management Committee, after making relevant amendments to the explanations included in the draft report with regard to the proposed courses of action to be taken on the part of the Corporation in relation to the disclosure of employee

benefits as per the Sri Lanka. Accounting Policy no: 19 and to the fuel consumption testing of vehicles in terms of 41/90, had reached the decision to recommend the relevant draft report for approval of the Board of Directors.

At the third audit and management committee meeting held in 2016, an extensive review was made on the observations included in the audit reports issued by the internal audit division of the Corporation to the Management during the 2nd quarter and on the reports forwarded to the committee on the courses of action taken by the management according to these observations and necessary recommendations were forwarded to the Board of Directors of the Corporation.

At the fourth audit and management committee meeting held in 2016, the action plan of the corporation for the year 2017 the internal audit plan and the procurement plan of the corporation were forwarded to the committee for the purpose of forwarding recommendations of the Committee. Discussions were held extensively with regard to the content of these documents at the committee meeting and accordingly relevant recommendations were forwarded to the Board of Directors of the Corporation. Also, discussions were held in relation to the unsolved audit paragraphs of the audit report, forwarded for the year 2015 in terms of the section 14 (2) (c) of the Finance Act and special attention was paid to the performance of the corporation, relevant government taxes applicable as per the activities of the Corporation, implementation of the subsidy programme, research & development work employees' attendance, departure and office time and acquisition of land under cultivation of which the Corporation does not have any legal ownership.

Also the committee held extensive discussions with regard to the observations included in the audit reports issued by the internal audit division of the corporation to the management during the period of 05 months from 01.07.2016 to 30.11.2016 and to the report submitted on the courses of action taken by the management according to the said observations. At this meeting the committee paid special attention to the delays occurring in the recovery of the dues for the sale of cashew on loan basis from the authorized sales centres of the corporation. Accordingly, the relevant recommendations were submitted to the Board of Directors.

**A A D S Atapattu, Chairman,
Audit & Management Committee**

Sri Lanka Cashew Corporation

1. Performance Report for the year 2016

001. Subsidy Scheme for Cashew Cultivation and Development Programmes

1.1 Subsidy Scheme for Cashew Cultivation

Under the subsidy scheme for cashew cultivation, a total of 4500 acres which is made up of 2500 acres of bud grafted cashew and 2000 acres of seedling cashew have been cultivated covering 18 districts. 3298 farmer families have been benefitted. The total cost incurred amounts to Rs. 13.95 millions.

02. Uplifting the Productivity of the Cultivation

2.1 Planting material production

Plant breeding centres in Nalanda in the Matale district, Wilachchiya in the Anuradhapura district, Mahaoya in the Ampara district and Suduwathuraara in the Moneragala district were maintained with a view to breeding new varieties suitable to various areas and to providing them to cashew smallholders. 13.91 Metric tons of high quality mother seeds and 264000 buds were obtained from these centres, required for the production of bud grafted plants necessary for the extension services and commercial activities. The total cost incurred amounted to Rs. 13.98 million.

2.2 Enhancement of the Production

With a view to eliminating pests and preventing diseases affecting cashew cultivation and also enhancing the productivity by adopting Good Agricultural Practices (GAP), a new chemical compound has been successfully experimented with and 150 farmers have been trained in this respect. Also pesticides were applied to borer infested trees in the main 04 estates to eliminate the trunk and root borer beetles. The cost incurred in this respect amounted to Rs. 1.18 million.

2.3 Plant Nursery Management

07 central plant nurseries of the Corporation have been set up in the Kamandaluwa estate, Aluththarama, Hardy, Mihintale, Chandrikaweva, Dambulla and Kumbukkana. With the aim of producing bud grafted plants using modern technological methods, 06 poly net houses have been setup in Kamandaluwa, Mihintale, Batticaloe and Aluththarama plant nurseries. For the Maha Season of 2016, 209125 high quality bud grafted plants were produced at these nurseries and distributed among farmers.

03 Research and Development Programmes

Research programmes are being implemented jointly with the Faculty of Agriculture and Plantation Management of the Wayamba University. Research programmes related to plant breeding, use of fertilizer, plant density, diseases and pest elimination in cashew cultivation, inter cropping, bud grafted and seedling crops, bud grafting techniques and harvesting are being carried out. Farmers are being made aware of the research outcomes through workshops and extension services. The total cost incurred amounted to Rs. 3.14 million.

04. Maintenance of Estates of the Corporation and Rehabilitation of Crops

Deforestation activities have been carried out in an area of more than 150 acres in extent in the Kondachchi estate and already planting has been carried out approximately in 100 acres. 800 young plants have been planted as a new cultivation in Mahaoya and Weeding has been carried out for the planting of 500 young plants in the Suduwaturaara see garden. A raw cashew arvest of 109 metric tons was gathered from the estates. In addition to this, chemical fertilizers were applied and weeding carried out pests and diseases eliminated, field paths were maintained and coppicing carried out to ensure a higher level of productivity. Total cost incurred was Rs. 14.64 million.

05. Post Harvest Technology

5.1 Marketing and the Promotion of the Processing Industry

The harvest gathered from Corporation's estates and the raw cashews purchased from farmers were processed at the processing centres in Puttlam and Nedagamuwa. They were sold at the main sales outlets of the Corporation as value added products. The network of Corporation's sales outlets, consisting of 51 authorized sales outlets was used for this purpose. 02 new value added products namely, pepper sprinkled cashew and cashew apple chutney were introduced to the customers and small scale processors and exporters in the Mulaitivu and Mannar districts were trained and made knowledgeable about cashew processing, through the conduct of 03 training programmes. Under this, training has been provided to more than 100 farmers. The total income earned by the Corporation from marketing activities was Rs. 84.59 million.

06. Human Resources Development

Steps were taken to conduct in-service Training Sessions necessary for the training and development of the officers of every level of the staff. This gave them the opportunity to increase their productivity, to update their subject related knowledge, to gain new knowledge and to increase efficiency through self motivation. A training programme under the theme "Attitudes and Personality Development" was conducted by a government approved private sector training institution for 60 staff members. The total cost incurred in this respect had amounted to Rs. 0.13 million.

Mid Term Measures to be Adopted for the Improvement of the Performance of the Sri Lanka Cashew Corporation.

Several mid term measures are expected to be initiated by the Corporation with a view to improving its performance.

- 01. Increasing the area of cashew cultivation in Sri Lanka**
- 02. Increasing the productivity of cashew grown lands**
- 03. Promotion of post harvest technologies related to cashew cultivation**
- 04. Development of human resources and increasing productivity**

01. Increasing the Area of Cashew Cultivation in Sri Lanka

1.1 Cashew Cultivation under Extension Programmes

Primarily, cashew cultivation in Sri Lanka is limited to the dry zone. Nearly 30000 acres of cashew grown lands were destroyed owing to the war which raged in these areas for the last three decades. However, under the extension programmes being implemented by the Corporation from 2010, more than 7000 acres of land per year were reclaimed.

Under the extension subsidy scheme funded by the treasury, bud grafted and seedling cashew cultivation will be carried out during the next three years at the rate of 4500 acres per year. Further, it has been planned to cultivate 750 acres out of the 4500 acres to be cultivated annually under the Subsidy Scheme, utilizing the surplus land available at places such as army camps, prisons, police and sacred sites where labour force is found in abundance. Under the subsidy programme, about 1500 acres per year are planned for cultivation as home gardens.

1.2 Rehabilitation of Plantations

Rehabilitation of old plantations and starting new plantations in the estates of the Corporation was undertaken from the year 2011. Under this, rehabilitation of the Kondachchi estate in the Northern Province and the Mankerni estate in the Eastern Province was undertaken jointly with the Department of Civil Security. It has been planned to cultivate about 2000 acres in the Kondachchi estate, 500 acres in the Thiriyaya and 500 acres in Madu, under a public - private joint project.

1.3 New Cultivation

New cultivations will be carried out also in cashew grown lands of cashew small holders, at the rate of 500 acres per year and this trend for cultivation will continue for the next three years. **Through the implementation of all aforementioned cultivation programmes, the cashew grown land extent will be increased at least by 7000 acres each year.**

A network of extension services consisting of 10 regional offices is being implemented for the successful completion of these activities and cashew cultivation development work in 18 districts is being covered through this network.

02. Increasing the Productivity of Cashew Grown Lands

The extent of cashew grown lands in Sri Lanka amounts to 142608 acres, of which 88% is made up of cashew small holdings. Seedling cashew trees have been cultivated in a majority of these lands and the cashew trees on these lands are aged 20-35 years, similar to those on the plantations of the Corporation and produce 3-5 kilograms of raw cashew per tree. In countries like Vietnam and India, where improved new varieties of cashew are being cultivated, a tree produces a yield of 10-15 kilograms of cashew. Accordingly, the Corporation is implementing the following activities with a view to increasing the productivity of the plantations.

2.1 Introduction of New Varieties

The Corporation has introduced 08 new improved varieties to the cashew growers, which give a higher yield. The research work is being implemented jointly with the Faculty of Agriculture and Plantation Management of the Wayamba University and the 08 varieties, WUCC 1, WUCC 5, WUCC 8, WUCC 9, WUCC 13, WUCC 19, WUCC 21, WUCC 23 have been cultivated on the Eluwankulama, Wilachchiya, Nalanda, Mahaoya, Suduwathuraara and Oyamaduwa estates and in Plant Breeding Centres. Action is being taken to obtain buds from these mother trees and to breed new varieties to suit various climatic zones of the island, which will be provided to the cashew growers. Two new varieties will be introduced annually with a view to increasing the cashew yield to 1000 kilograms per hectare.

2.2 Application of Good Agricultural Practices

Each year cashew small holders are directed to remove seedling cashew trees which give a low yield and to start replanting. Training programmes for cashew growers are conducted annually with the involvement of the National Institute of Plantation Management, with a view to increasing the cashew yield through the application of Good Agricultural Practices. This is expected to be implemented during the course of the next three years. Visual media are being used for this purpose. Owing to heavy rainfall during the flowering season, shoot dieback disease may occur in plantations.

As a result, the cashew yield may drop by 30% - 40%. Hence the need to make the cashew small holders knowledgeable has become vitally important. With the intention of suppressing damages being caused by carpenter worms in mature cashew cultivations a programme is being implemented jointly with the research units and is scheduled to be implemented during the course of the next three years.

2.3 Central Plant Nurseries

Central Plant Nurseries of the Corporation have been established in Mihintale, Dambulla, Kamandaluwa estate, Aluththarama, Kumbukkana, Hardy estate and Chandrikaweva. At these nurseries, high quality bud grafted plants of new varieties are produced under the supervision of the Corporation's officials and are issued to growers. A total of 300000 bud grafted plants are produced annually at these plant nurseries and it is envisaged that 350000 plants per year will be produced during the next 03 years. The application of new technologies in the production of plants is being promoted.

03. Promotion of Post Harvest Technologies of Cashew Corporation

A high demand for Sri Lankan cashew has arisen in the world market due to its taste, size and even colour. However, it is difficult to increase the export capacity immediately with the annual harvest of 10000-12000 raw cashew produced each year. Also, the local consumption of cashew kernels has increased.

In addition to this, due to the increase of the production cost of a kilogram of cashew kernels, the price of a kilo of cashew kernels ranges from Rs. 2500 - Rs. 3500. After taking these facts into consideration, the Corporation has initiated a number of measures to increase the standards of the cashew kernel products and the profit being earned.

3.1 Good Manufacturing Practices

The Corporation encourages the use of standardization, value addition and the application of Good Manufacturing Practices to increase the quality of the products, the use of hygienic manufacturing practices, modernizing of the processing utilizing new technologies, the use of new packaging methods and the manufacture of new products among small scale entrepreneurs. The training centre of the Nedagamuwa processing centre is being used for this purpose.

3.2 Training Programmes

The Corporation contributed towards the elevation of the products of small scale producers to reach the international standards and have conducted training programmes for 50 persons engaged in the processing industry annually. This will be continued during the course of the next three years.

Also a programme currently being implemented to provide those who embark on processing industries with electricity operated shelling machines and ovens at affordable prices with the involvement of the Corporation will also be continued.

3.3 Purchase of Cashew Kernels from small scale processors

In addition to the harvest gathered from the plantations of the Corporation, cashew kernels needed to continue the annual production at processing factories, were purchased last year from the cashew growers. Cashew Kernels were purchased from small scale processors, instead of purchasing raw cashew from farmers, with the objective of facing market competition and reducing the cost. Steps will be taken to purchase raw cashew from small scale processors during the course of the next three years.

3.4 Promotion of cashew byproducts

Raw cashews are separated from the cashew harvest and cashew apples go to waste without any use being derived from them. Accordingly, every year more than 10000 cashew apples go to waste without any use being derived from them. A joint programme is being implemented with the private sector to conduct research on the manufacture of byproducts of cashew apples such as Non Alcoholic Beverages, jams, cordials, to provide training and to market products.

04 Human Resources Development and Increasing the Productivity

4.1 Training and Development of Human Resources

Steps have been taken to conduct in service training sessions necessary for the training and development of officers of all levels of the staff. This programme enables them to acquire a higher level of productivity, in their respective works, update their knowledge of the subject field, provides opportunities to obtain latest knowledge, enables to acquire a higher level of efficiency through self motivation. It has been planned to continue this training programme during the course of the next three years.

4.2 Restructuring and Performance Evaluation of the Staff

Computers and fax machines have been provided to the network of regional offices of the Corporation. Accordingly, the communication facilities have been modernized with access to internet. Measures have been taken to restructure the staff to conform to the current development process of the Corporation and to revise the scheme of recruitment and promotion. This will ensure that the performance of the staff is maximized enabling the Corporation to overcome the challenges of the next few years. Steps have also been taken to evaluate the performance of all levels of the staff.

Sri Lanka Cashew Corporation
Amalgamated Statement of Financial Position As At 31.12.2016

31.12.2015		Notes	Rs.	Rs.
<u>Rs.</u>	Assets		<u>Rs.</u>	<u>Rs.</u>
	Non Current Assets			
110,208,071.46	Property Plant & Equipment	01	100,868,528.94	
31,442,182.70	Mature Area Expenditure	02	29,302,731.09	
33,242,774.25	Immature Area Expenditure	03	41,362,272.10	
	Other Small Projects			
806,139.73		04	949,324.48	
<u>175,699,168.14</u>	Total Non Current Assets			172,482,856.61
	Current Assets			
30,130,806.66	Stocks	05	28,916,492.36	
	Trade Debtors & Other			
24,410,542.89	Receivables	06	20,797,900.64	
	Deposits, Advances &			
4,287,395.21	Prepayments	07	4,840,932.10	
	Cash & Cash Equivalents			
38,846,405.43		08	7,874,272.04	
<u>97,675,150.19</u>	Total Current Assets			<u>62,429,597.14</u>
<u>273,374,318.33</u>	Total Assets			<u>234,912,453.75</u>
	Equity & Liabilities			
	Equity			
40,000,000.00	Initial Capital		40,000,000.00	
114,881,471.56	Government Grant		123,860,520.72	
18,916,912.73	Grant from Other Parties	09	18,529,864.26	
17,441,846.85	Capital Reserves	10	17,441,846.85	
	Profit & Loss Account			
8,550,232.37			(27,975,179.12)	
<u>199,790,463.51</u>	Total Equity			171,857,052.71
	Non Current Liabilities			
	Provision for Gratuity			
52,470,630.13			40,060,261.50	
<u>52,470,630.13</u>	Total Non Current Liabilities		40,060,261.50	
	Current Liabilities			
	Trade Creditors & Other			
	Payables			
21,113,224.69		11	22,995,139.54	
<u>21,113,224.69</u>	Total Current Liabilities			<u>63,055,401.04</u>
<u>273,374,318.33</u>	Total Equity & Liabilities			<u>234,912,453.75</u>

Damsiri Bandara Karunaratne
Chairman

Miriialla W.M. Bandarathilaka
Deputy Chairman

M.T.S.K.Peiris
Assistance General
Manager Finance

SRI LANKA CASHEW CORPORATION

Accounting Policies - 2016

- (1) The accounts have been prepared in accordance with the Sri Lanka Accounting Standards.
- (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.

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%

- (3) An item of property, plant and equipment that qualifies for recognition as an asset is be measured at cost.

After recognition as an asset, an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount (being its fair value at the date of the re-valuation) less accumulated depreciation and any accumulated impairment losses.

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

a.	Cashew kernels &	-	Cost and Net realizable
	Cashew Nut Shell Liquid		Value whichever is lower

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

- (5) Head Office Charges have been apportioned among the cost centers on the basis of total salary expenditure incurred for the cost centers.
- (6) The basis of apportionment of Plantation General Expenditure to mature, immature area, nursery & Animal husbandry on the actual labour days.
- (7) Amortizing of Cashew & Coconut Mature Areas is at 5% per annum.
- (8) 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.
- (9) 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.
- (10) Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue from the Sales of Goods shall be recognized when all the following conditions have been satisfied.

- The entity has transferred to the buyer the significant risk and rewards of ownership of the goods

- The entity retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
 - The amount of revenue can be measured in reliably
 - It is probable that the economic benefits associated with the transaction will flow to the entity
 - The cost incurred or to be incurred in respect of the transaction can be measured reliably.
- (11) When the capital Grant is allocated and realized, to the corporation that is usually capitalized after identifying related capital assets and other development activities which are considered as long term assets in accordance with the Accounting Standards.
- The actual value entered to the books of accounts by way of depreciation and amortization is written off from the capital assets and subsequently an equivalent value is identified from the Capital Grant as revenue.
- (12) The effective date of the revaluation of Motor Vehicles is determined as 01.01.2009 and the revaluation is done by an independent committee which headed by a Mechanical Engineer of a reputed government institution.
- (13) The administration expenses with regard to the production of cashew budded and seedling plants have been distributed proportionately among the service and commercial cost centers based on the actual number of plants produced and distributed.

SRI LANKA CASHEW CORPORATION

Notes to the Accounts

(1) The Financial Statements for the year ended 31st December 2016 have been approved by the Board of Directors on 22nd of February 2017.

(2) Nature of the business & Main Activities.

Sri Lanka Cashew Corporation is engaged in an agricultural business and the main activities of the corporation are mentioned below.

- Cultivate cashew plants in the plantations & produce Raw Cashew.
- Produce Planting materials in the Plant Propagation Centers.
- Produce budded & seedling cashew plants in the Commercial Nurseries.
- Implement a Subsidy Scheme for the cashew cultivation covering 18 districts on farmer owned lands.
- Produce cashew kernels and value added at processing Centers.
- Produce cashew wine using cashew apples.
- Sale of Cashew value added products in corporation Sales Outlets, Franchise shops & other institutions.
- Implement Research & Development activities on cashew cultivation & processing technology.

(3) A Legal case is ongoing the Corporation, on the constructive termination matter, in the Labour Tribunal Colombo No: 01, which has been filed by the ex. Manager-Marketing & Processing demanding a compensation from the corporation. No final

decision is given yet, hence no provision made for the compensation in the book of accounts due to unavailability of a reasonable estimate of the compensation.

(4) Measurement base on the preparation & presentation of the Financial Statements.

The measurement applied on the preparation & presentations of the Financial Statements have been disclosed as and when it is necessary in the notes to the accounts.

(5) Provision for gratuity has being calculated based on their Salary (as per the relevant Laws) and service as the actuary's values could not be calculated due to the non availability of funds to consult of required expertise.

Sri Lanka Cashew Corporation

Note 01

Property, Plant & Equipment:

Asset	Cost/Revaluation Value as at 01.01.2016 (Rs.)	Additions/Revaluation During the Year (Rs.)	Disposal/Transfer During the Year (Rs.)	Cost/Revaluation Value as at 31.12.2016 (Rs.)	Cumulative Depreciation as at 31.12.2016 (Rs.)	Written Down Value as at 31.12.2016 (Rs.)
Land	23,536,722.37	2,250,000.00	-	25,786,722.37	-	25,786,722.37
Buildings (Permenent)	44,305,645.15	608,792.00	-	44,914,437.15	17,341,445.36	27,572,991.79
Buildings (Semi Permenent)	243,710.00	196,701.00	-	440,411.00	192,383.08	248,027.92
Motor Vehicles	98,603,365.84	1,384,065.00	-	99,987,430.84	66,457,970.79	33,529,460.05
Plant & Machinery	15,159,406.98	1,266,090.00	-	16,425,496.98	11,274,509.94	5,150,987.04
Tools & Equipment	8,179,119.92	856,280.82	-	9,035,400.74	7,347,903.16	1,687,497.58
Office Equipment	10,549,458.99	374,862.50	-	10,924,321.49	8,597,515.18	2,326,806.31
Furniture & Fittings	6,887,972.32	209,261.00	-	7,097,233.32	4,441,946.49	2,655,286.83
Tube Well	826,682.00	131,701.5	-	958,383.50	526,155.49	432,228.01
Cultivation Well	1,110,755.66	69,750.74	-	1,180,506.40	310,809.98	869,696.42
Tank	608,824.62	-	-	608,824.62	-	608,824.62
	210,011,663.85	7,347,504.56	-	217,359,168.41	116,490,639.47	100,868,528.94

Sri Lanka Cashew Corporation

Note - 02

Mature Area Expenditure

		<u>(Rs.)</u>
Cashew	Schedule - 2A	27,290,932.37
Coconut	Schedule - 2B	2,011,798.72
	Total	<u>29,302,731.09</u>

Schedule - 2A

Mature Area - Cashew

Plantation	Cost up to maturity as at 01.01.2016 (Rs.)	Provision for Amortization as at 31.12.2016 (Rs.)	Net Value as at 31.12.2016 (Rs.)
Hardy Plantation	2,736,310.00	1,797,539.35	938,770.65
Kamandaluwa Plantation	14,708,944.94	11,007,531.17	3,701,413.77
Puttalam Plantation	30,069,888.71	19,590,822.69	10,479,066.02
Eluwankulama Plant Propagation Centre	13,933,185.28	9,568,897.08	4,364,288.20
Vilachchiya Plant Propagation Centre	655,569.86	163,184.29	492,385.57
Nalanda Plant Propagation Centre	5,806,871.57	1,116,210.19	4,690,661.38
Mahaoya Plant Propagation Centre	1,150,848.05	172,627.20	978,220.85
Monaragala Plant Propagation Centre	1,936,618.75	290,492.82	1,646,125.93
Total	<u>70,998,237.16</u>	<u>43,707,304.79</u>	<u>27,290,932.37</u>

Sri Lanka Cashew Corporation

<u>Schedule - 2B</u>			
<u>Mature Area – Coconut</u>			
Plantation	Cost up to maturity as at 01.01.2016 (Rs.)	Provision for Amortization as at 31.12.2016 (Rs.)	Net Value as at 31.12.2016 (Rs.)
Hardy Plantation	1,369,822.51	547,929.04	821,893.47
Kamandaluwa Plantation	2,437,612.22	1,323,305.04	1,114,307.18
Puttalam Plantation	431,998.76	356,400.69	75,598.07
	4,239,433.49	2,227,634.77	2,011,798.72

Note - 03

Immature Area Expenditure

		(Rs.)
Cashew	Schedule - 3A	36,419,064.76
Coconut	Schedule - 3B	4,943,207.34
	Total	41,362,272.10

<u>Schedule - 3A</u>			
<u>Immature Area – Cashew</u>			
Plantation	Cost as at 31.12.2016 (Rs.)		
Hardy Plantation			2,387,604.09
Kamandaluwa Plantation			3,466,516.96
Puttalam Plantation			3,831,322.18
Eluwankulama Plant Propagation Centre			748,390.43
Manrkerni Plantation			1,315,572.56
Elkaduwa Plant Propagation Centre			152,382.00
Mahaoya Plant Propagation Centre			520,906.45
Monaragala Plant Propagation Centre			345,338.70
Research & Development			1,598,496.77
Nedagamuwa Processing Centre			135,360.40
Oyamaduwa Plant Propagation Centre			10,078,258.69
Villachchiya Plant Propagation Centre			21,783.98
Kondachchi Plant Propagation Centre			11,817,131.55
Total			36,419,064.76

Sri Lanka Cashew Corporation

Schedule - 3B

Immature Area – Coconut

Plantation	Cost as at 31.12.2016 (Rs.)
Hardy Plantation	2,099,344.16
Kamandaluwa Plantation	995,672.68
Puttalam Plantation	630,182.49
Oyamaduwa Plant Propagation Centre	1,218,008.01
	4,943,207.34

Note - 04

Other Small Projects

Project	Cost as at 31.12.2016 (Rs.)
Teak Plants Project	482,874.09
Black Gram Project	40,000.00
Papaya Project	368,594.66
Banana / Citrus Project	10,800.00
Thibbatu Project	47,055.73
	949,324.48

Note – 05

Stocks

	(Rs.)
Sundries	3,268,416.56
Wine & Kithul Peni	188,117.27
Cashew Kernels	12,411,594.01
Raw Cashew	8,915,360.00
Plants	2,708,562.36
Packing Materials	1,404,454.16
Coconuts	19,988.00
	28,916,492.36

Sri Lanka Cashew Corporation

Note -06

Trade Debtors & Other Receivables

		<u>(Rs.)</u>
Trade Debtors	2,314,600.60	
Less : Pro. For Bad Debts	81,706.00	2,232,894.60
	<hr/>	
Sundry Debtors	20,208,598.04	
Less : Impairment Loss	1,643,592.00	18,565,006.04
	<hr/>	<hr/>
		20,797,900.64
		<hr/>

Note -07

Deposits, Advance & Prepayments

Advance		16,500.00
Prepayments		170,838.60
Deposits		4,653,593.50
		<hr/>
		4,840,932.10
		<hr/>

Note - 08

Cash & Cash Equivalents

		<u>(Rs.)</u>
Cash in Transit		22,800.00
Cash at Bank & Cash in Hand		7,851,472.04
		<hr/>
Total		7,874,272.04
		<hr/>

Sri Lanka Cashew Corporation

Note - 09

Grant from other Parties

	<u>(Rs.)</u>
North East Coastal Community Development Project	6,569,892.91
Ministry of Supplementary Plantation Crop. Development	1,612,451.80
Ministry of Minor Export Crop Promotion	10,347,519.55
	<u>18,529,864.26</u>

Note – 10

Capital Reserves

	<u>(Rs.)</u>
Revaluation Reserve – Vehicles	16,929,116.63
Other Capital Reserves	512,730.22
Total	<u>17,441,846.85</u>

Note – 11

Current Liabilities

	<u>(Rs.)</u>
Sundry Creditors	16,412,779.70
Accrued Expenses	6,582,359.84
Total	<u>22,995,139.54</u>

Sri Lanka Cashew Corporation
Commercial Sector
Amalgamated Statement of Comprehensive Income For the Year Ended
31.12.2016

<u>31.12.2015</u>	Particulars	<u>31.12.2016</u>
	<u>Sales/Turn Over</u>	
67,707,424.80	Cashew Kernels	86,194,216.09
3,004,850.00	Cashew Mother Seeds	2,121,515.00
3,157,500.00	Cashew Plants	5,210,800.00
1,481,898.19	Coconut	1,425,600.50
(55,122.80)	Return Inward	(46,496.00)
75,296,550.19	Net Sales	94,905,635.59
	<u>Cost of Sales</u>	
1,188,845.97	(Increase)/Decrease In Stock	(1,868,861.98)
166,617.83	Cost of Plants Production	741,976.96
22,998,006.00	Cost of Kernels Production/Over Heads	38,613,263.18
21,355,753.45	Mature Area Admin. Expenditure	24,383,333.74
9,345,547.13	Mature Area Direct Expenses	6,777,772.26
55,054,770.38	Total Cost of sales	68,647,484.16
20,241,779.81	Gross Profit/ (Loss)	26,258,151.43
	<u>Expenditure</u>	
16,102,968.44	Administration Expenses (Processing Centres & Nurseries)	19,992,240.51
4,138,811.37	Profit / (Loss) Before Amortization	6,265,910.92
3,283,050.99	Amortization	3,351,365.57
855,760.38	Profit/(Loss) After Amortization	2,914,545.35
227,361.39	Profit/(Loss) Wine & Kithul Peni	352,698.68
33,500.00	Profit/(Loss) Processing Equipments	105,000.00
(152,344.97)	Profit/(Loss) Papaya Project	(204,645.68)
-	Profit/(Loss) Training Programmes	58,407.55
(1,266,682.36)	Profit/(Loss) Animal Husbandry	-
(302,405.56)	Operational profit / (Loss)	3,226,005.90
	<u>Other Income</u>	
27,798,000.00	Government Grant (Recurrent)	16,922,573.08
10,168,605.39	Profit/(Loss) Disposal of Fixed Assets	-
-	Under / (Over) Provision Adjustment	8,752,506.76
2,451,182.75	Interest Income	1,563,437.62
2,512,401.14	Sundry Income	17,596,700.93
2,291,036.81	Amortization - Grant from Other Parties	2,717,036.82
45,221,226.09	Total Other Income	47,552,255.21
	<u>Other Expenses</u>	
27,897,829.00	Administration Expenses (Head Office)	19,148,189.25
17,020,991.53	Net Profit/(Loss)	31,630,071.86

**Sri Lanka Cashew Corporation
Service Sector**

31.12.2015

Income & Expenditure Account for the Year Ended 31.12.2016

(Rs.)

<u>Income</u>			
	Government		
23,382,225.18	Grant-	Capital	- Current Year
			21,870,362.74
			- Amortization
2,318,239.65			Other Assets
			2,760,588.10
3,195,000.00			03 Cabs
			3,834,000.00
<u>38,302,000.00</u>		- Recurrent	31,077,426.92
<u>Sundry Income</u>			
-	Over Provision Adjustment		220,800.00
111,620.00	- Extension Service		2,056.42
<u>26,455.00</u>	- Research & Development		<u>352,400.00</u>
67,335,539.83	Total Income		<u>60,117,634.18</u>
Less;			
<u>Expenditure</u>			
38,438,172.65	Head Office		35,164,655.48
23,382,225.18	Under Capital Grant		21,870,362.74
51,705,959.87	Extension Service		60,540,353.94
12,114,885.83	Central Nurseries		2,816,646.19
3,891,016.26	Research & Development		4,087,590.92
569,763.68	Oyamaduwa Plant Propagation Centre		918,419.76
<u>1,982,549.66</u>	Kondachchi Plant Propagation Centre		<u>2,875,088.50</u>
132,084,573.13	Total Expenditure		128,273,117.53
Expenditure Over Income during the Year			
Transferred to Final Amalgamated Profit/Loss			
<u>(64,749,033.30)</u>	Account		<u>(68,155,483.35)</u>

Sri Lanka Cashew Corporation

Final Amalgamated

**Statement of Comprehensive Income For The Year Ended
31.12.2016**

<u>31.12.2015</u>		
(Rs.)		(Rs.)
17,020,991.32	Net Profit/(Loss) earned from the Commercial Sector	31,630,071.86
<u>(64,749,033.30)</u>	Expenditure Over Income for the Year - Service Sector	<u>(68,155,483.35)</u>
<u>(47,728,041.98)</u>		<u>(36,525,411.49)</u>
<u>56,278,274.35</u>	Profit / (Loss) Brought Forward	<u>8,550,232.37</u>
56,278,274.35		8,550,232.37
<u>8,550,232.37</u>	Profit / (Loss) Carried Forward	<u>(27,975,179.12)</u>

SRI LANKA CASHEW CORPORATION

CASH FLOW STATEMENT

Consolidated cash Flow Statement for the year ended 31st December 2016.

<u>31.12.2015</u>		<u>Year ending 31st December - 2016</u>
(Rs.)		(Rs.)
	<u>Cash Flows from Operating Activities</u>	
(47,728,041.98)	Loss for the year	(36,525,411.49)
	<u>Adjustments for items not involving movement of cash</u>	
17,695,062.67	Depreciation	16,687,047.08
3,437,424.54	Amortization of Plantation Assets	3,505,738.91
12,242,906.37	Provision for Gratuity	394,830.26
384,277.97	Bad debtors written off & Pro. For Impairment Loss	317,055.04
(5,395,119.99)	Profit on Dispose fixed Assets	-
(4,773,485.40)	Capital Reserve Written off to Profit & Loss Account	-
21,846.87	Loss on Burglary - Tools & Equipment	-
1,046,491.00	Written off Capital work in Progress	-
237,187.85	Written off other small projects	
-	Over Provisison of Gratuity (Profit & Loss A/C)	(8,752,506.76)
(226,011.65)	Grant from Other Parties	(387,048.47)
261,468.96	Adjustment Mature Area (Hardy)	-
(31,186,501.64)	Government Grant Amortization	(31,020,950.84)
<u>(6,254,452.45)</u>		<u>(19,255,834.78)</u>
(53,982,494.43)	Operating Profit/(loss) before changes in items of Working Capital	(55,781,246.27)

SRI LANKA CASHEW CORPORATION

Changes in items of Working capital

18,581,307.76	Stocks - (Increase)/Decrease	1,214,314.30
48,085.69	Debtors - (Increase)/Decrease	3,295,587.21
5,792,348.03	Advances and Prepayments - (Increase)/Decrease	(553,536.89)
(2,132,590.15)	Creditors - Increase/(Decrease)	4,633,945.04
(1,758,747.05)	Accrued Expenses - Increase/(Decrease)	(2,752,030.19)
<hr/> 20,530,404.28		<hr/> 5,838,279.47
(33,452,090.15)		(49,942,966.80)
(2,186,852.25)	Payment of Gratuity	(4,052,692.13)
<hr/> (35,638,942.40)	Cash used in/generated from operating activities	<hr/> (53,995,658.93)

Cash flows from Investing Activities

(18,969,771.51)	Purchase of fixed assets	(7,347,504.56)
(7,389,946.53)	Investment on New Planting	(9,485,785.15)
5,395,125.95	Sale Proceeds from Property, Plant & Equipment	
(428,733.20)	Investments on Other Small Projects	(143,184.75)
<hr/> (21,393,325.29)		<hr/> (16,976,474.46)
<hr/> (57,032,267.69)		<hr/> (70,972,133.39)

SRI LANKA CASHEW CORPORATION

**Cash Flows from Financial
Activities**

<u>35,000,000.00</u>	Government Grant	<u>40,000,000.00</u>
(22,032,267.69)	Increase in cash & cash equivalents	(30,972,133.39)
60,878,673.12	Cash & cash equivalents at beginning of the year	38,846,405.43
<u>38,846,405.43</u>	(Note-01)	<u>7,874,272.04</u>

<u>Note - 01</u>	<u>As at 01.01.2016</u>	<u>As at 31.12.2016</u>
Cash at Bank & Cash in hand	38,724,327.43	7,851,472.04
Cash in Transits	<u>122,078.00</u>	<u>22,800.00</u>
	<u>38,846,405.43</u>	<u>7,874,272.04</u>

Sri Lanka Cashew Corporation

Changes in Equity Statement for the year ended 31.12.2016

Changes	Initial Capital	Government Grant-Capital	Grant from NECCD Project	Grant from MSPCD	Revaluation Reserve	Other Capital Reserves	Grant from MMECP	Profit & Loss Account	Total (Rs.)
Balance as at 01.01.2016	40,000,000.00	114,881,471.56	6,795,904.56	1,612,451.80	16,929,116.63	512,730.22	10,508,556.37	8,550,232.37	199,790,463.51
Grant Received during the year	-	40,000,000.00	-	-	-	-	-	-	40,000,000.00
Transfers to Profit & Loss Account	-	(31,020,950.84)	(226,011.65)	-	-	-	(161,036.82)	-	(31,407,999.31)
Net Profit / (Loss) for the period	-	-	-	-	-	-	-	(36,525,411.49)	(36,525,411.49)
Balance as at 31.12.2016	40,000,000.00	123,860,520.72	6,569,892.91	1,612,451.80	16,929,116.63	512,730.22	10,347,519.55	(27,975,179.12)	171,857,052.71

NECCD -North East Coastal Community Development Project

MSPCD - Ministry of Supplementary Plantation Crops Development

MMECP -Ministry of Minor Export Crops Promotion



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } AGL/C/SLC/1/16/FA
எனது இல. }
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය }
திகதி }
Date }

31 May 2017

The Chairman
Sri Lanka Cashew Corporation

Report of the Auditor General on the Financial Statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2016 in term of Section 14(2)(c) of the Finance Act, No.39 of 1971

The audit of financial statements of the Sri Lanka Cashew Corporation for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 23 of the State Agricultural Corporation Act No.11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Corporation on 09 May 2017.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified, based on the matters described in Paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Sri Lanka Cashew Corporation as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLAS)

The following non-compliances were observed.

(a) Sri Lanka Financial Reporting Standard 07

In terms of Section 08 of the standard, the manner in which financial assets and liabilities were classified and the nature and extent of financial and management risks arising from financial instruments had not been disclosed along with the financial statements.

(b) Sri Lanka Accounting Standard 01

(i) The description of the nature of the capital reserves had not been disclosed along with the financial statements in terms of Section 79(6) of the Standard.

(ii) The accounting policy used for the recognition and measurement of financial instruments and the recognition and accounting the biotic assets belonged to the Corporation had not been disclosed with the financial statements in terms of Section 117 of the Standard.



- (iii) Except permitted or required by the standard, income and expenditure should not be offset. Nevertheless, income of Rs.127,617 of the papaw project had been off set against its expenditure of Rs.332,262.

(c) Sri Lanka Accounting Standard 02

Instead of valuation of stock by computing the cost separately, the stock had been valued at average cost of all products. However, the market price of the cashew related products amounting to Rs.12,411,594 shown in the financial statements had been less than the average cost price.

(d) Sri Lanka Accounting Standard 16

- (i) In terms of Section 55 of the standard, depreciation of an asset begins when it is available for use. Nevertheless, in depreciating buildings, the policy had been recognised in a manner that depreciation had been made for the entire year, irrespective of the completion date of constructions.

- (ii) As the useful life of non-current assets had not been reviewed, 19 motor vehicles costing Rs.22,921,312 fully depreciated but were being further used. Accordingly, the estimated error arisen had not been revised in terms of Sri Lanka Accounting Standard 08.

- (iii) In terms of Section 73 of the standard, the accumulated depreciation at the beginning of the year under review, the year's depreciation and the depreciation of disposed assets relating to the Property, Plant and Equipment had not been disclosed.

(e) Sri Lanka Accounting Standard 19

- (i) In terms of Section 57 of the standard, all material post-employment benefit obligations should be assessed by a qualified actuary but it had not been so done.



- (ii) Information with regard to employee benefits to be disclosed had not been disclosed as required by the standard.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The total value of payable balances in the financial statements of the year under review amounted to Rs.16,412,780 out of which the balances totalling Rs.8,929,887 and Rs.600,000 had been older than 5 years and between 3 to 5 years respectively.
- (b) The total value of receivable balances was Rs.22,523,199 out of which the balances totalling Rs.13,230,715 and Rs.5,896,600 had been older than 03 years and between 1 to 3 years respectively.
- (c) Although there was a balance of Rs.1,499,709 in the provision for audit fees account as at the end of the year under review, audit fees had not been paid after the year 2010.
- (d) Lease rental for the land belonging to the Land Reforms Commission possessed without an agreement had not been paid.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Inland Revenue Act No,10 of 2006.	Action had not been taken to prepare tax returns or to pay income tax for the assessment years of 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016.

- (b) Value Added Tax Act No.14 of 2002 and National Building Tax Act No,9 of 2009. An entity which supplies or manufacturers wholesale and retail goods and the quarterly turnover is over Rs.3.75 million or the annual turnover is more than Rs.15 million that entity should register for Value Added Tax and Nation Building Tax. Action had not been taken accordingly.
- (c) Guideline 5.4.8 of the Government Procurement Guidelines of 2006. Eventhough a contract for Rs.1,350,000 had been awarded for the deforestation of 100 acres at Rs.13,500 per acre in the Kondachchi Estate, a performance bond had not been obtained. As that contractor had failed to commence the work, that task had been subsequently awarded to another party deviating the Procurement Guidelines on the decision of the Board of Directors on 30 August 2016. A sum of Rs.1,500,000 had been paid on 30 April 2017 for 100 acres at Rs.15,000 per acre.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a deficit of Rs.36,525,411 as compared with the deficit of Rs.47,728,042 for the preceding year. Accordingly, the deficit had decreased by Rs.11,202,630 as compared with the preceding year. Increase of revenue in the Commercial Division by Rs.19,609,086 and the decrease of expenditure in the Service Centre by Rs.3,406,450 had mainly attributed to this decrease.

In analyzing the financial results of the year under review and the 4 preceding years, there was a net profit of Rs.44,233,832 for the year 2012 and it had continuously deteriorated since then and the net loss for the year 2015 amounted to Rs.47,728,042. As adjustments had been made in the year 2016 for the compensation received for lands which was a non-operational income and the over provision of gratuities totalling Rs.22,746,506, the net loss for the year 2016 had reduced to Rs.36,525,411. However, in considering employees remuneration and depreciation on non-current assets, the contribution of Rs.121,065,660 of the Corporation in the year 2012 had decreased to Rs.87,183,875 in the year 2016.

4. Operating Review

In terms of the State Agricultural Corporation Act No.11 of 1972, the main objectives of the establishment of the Corporation are Plantation, Production, Processing and Sale of Cashew, Preparation of Plans for Marketing, conducting investigations and researches collection, preparation, Publication and distribution of information on marketing and others, training of persons required for processing Cashew related products and the promotion of demand for products for the World Market.

In order to achieve the above objectives, the Corporation has a network, comprising of 7 Cashew estates, 04 breeding centres, 07 Central Plant nurseries which produces but plants, 02 Cashew Processing Centres, 03 Sales Centres, 02 reaserch centres and 51 Marketing agents network. Audit examination carried out in respect of the main activities of the Corporation observed the following matters.

(a) Production in the Cashew Estates belongs to the Corporation

According to the information made available for audit, the observations on the production in the Cashew estates belonging to the Corporation and the extent of cultivation of lands are given below.

- (i) Replanting in the Kondachchi estate, 6,000 acres in extent, had been commenced in the year 2014 and Cashew Plants had been cultivated in 450 acres by March 2017. However, the cultivation had not been properly maintained.
- (ii) It was observed that reap of harvest can be done in the year 2017 from Cashew Plants Cultivated in the year 2014, but the necessary facilities had not been provided to store the harvest properly and to dry the harvest after reaping.
- (iii) The fertile land of the Kondachchi estate, 4,350 acres in extent, had been idle and the attention of the Management was not drawn to replant by increasing necessary equipment, supervisory staff and Laborers under a proper plan.
- (iv) Out of the land, 960 acres in extent, in the Achchige estate in Puttalam, 760 acres were suitable for cultivation and a minimum crop of 14,641 kg field weight of Cashew had been obtained during the year under review. Eighty seven acres had been utilized for replanting. Eventhough the number of bud Cashew plants cultivated in a land of 673 acres in extent amounted to 53,840, the number of Cashew trees already cultivated amounted to 3,286 only. As such a land 50, 540 acres in extent where Cashew can be cultivated had been idle without being utilized for cultivation.
- (v) As the age of 15,195 Cashew trees in the Puttalam, Kandamaluwa and Hardy estates had been older than 30 years, the yield of them was at a low level. The yield of a Cashew tree in the Mankerny, Suduwathura ara and Oyamaduwa estates had been less than 2 kg as compared with the maximum yield of 4.93 kg of field weight in the Eluwankulama Estate.

(vi) In the Puttalama Estate, 500 seeds plants and 400 bud plants had been cultivated in the years 2012 and 2013 respectively and 28 per cent of them were destroyed according to the census in 2015.

(b) Proper statistical records had not been maintained in an updated manner in respect of Cashew trees in the Cashew estates of the Corporation by identifying Cashew trees.

(c) **Implementation of the subsidy programs**

The Cashew plantation subsidy scheme had been implemented since 2000 island wide with the objective of extending Cashew cultivation and to improve the National Product. By the end of the year under review 2,383,620 and 1,200,640 bud Cashew plants and seed cashew plants respectively totalling Rs.3,584,260 had been distributed among the farmers under this subsidy scheme, and the following observations are made in this connection.

(i) Sums of Rs.62.9 million and Rs.222 million had been spent as capital expenditure and recurrent expenditure respectively during the past 5 years, therefor. The cash for fertilizer subsidy had been given prior to the year 2013 and a sum of Rs.16 million had been granted as fertilizer subsidy from the year 2007 to 2013 but the Corporation had not taken follow up action about the successfulness.

(ii) Cashew plants of 34,240 had been distributed in the year 2014 among the 275 farmers in 09 Divisional Secretarial Divisions in the Puttalam District. In the first check carried out observed that 46 per cent plants of them had destroyed whereas in the second check observed that 65 per cent of them had destroyed. In the year 2015, Cashew plants had been distributed to 201 farmers in 09 Divisional Secretariat Division in the same district and it was observed in the first census, 31 per cent of them had destroyed.

- (iii) Cashew plants of 36,000 had been distributed among the farmers in 11 Divisional Secretarial divisions in the Kurunegala District in the year 2014. By the time of the first check and the second check 58 per cent and 71 per cent of them respectively had destroyed. In the year 2015, 28,000 Cashew Plants had been distributed among 248 farmers in 10 Divisional Secretarial Divisions out of which 43 per cent of them had destroyed by the year 2016.
 - (iv) Cashew plants of 32,000 had been distributed among 412 farmers in 14 Divisional Secretarial Divisions in Anuradhapura District in the year 2014. By the time of the second check, only 9,948 or 31 per cent of them had remained.
- (d) According to the physical test check carried out in Divisional Secretariats of Puttalama and Arachchikattuwa in Puttalam District, Nikaweratiya in Kurunegala District and Nochchiyagama in Anuradhapura District the following matters were observed.
- (i) All 640 plants given to 3 farmers had destroyed and out of 3,120 plants given to 28 farmers, only 824 plants or 26 per cent had succeeded.
 - (ii) Most of the Cashew estates had overgrown with weeds and not properly maintained. Furthermore, action had not been taken to protect the plants from animals.
 - (iii) Eventhough nearly 5 years had elapsed by now for Cashew Plants given in the year 2012, any cultivated land whatsoever which reaping harvest was not observed at the physical verification.



- (iv) Even though a proper supervision had to be carried out in order to achieve the objectives of the Cashew subsidy program, supervisory functions were difficult as the cultivated lands were not located so as to easy supervision of the Cashew Development Officers.
- (e) In the production of Cashew during the year under review there were 27,935 kg of rotten and empty Cashews. Although the rotten and empty Cashews should be 15 per cent of the field weight of 1 kg, the rotten and empty cashew percentage of Eluwankulama Kamandaluwa and Nalanda estates had ranged from 19 to 57 per cent of the field weight of the harvest received.
- (f) The Corporation had sold 30,598 kg of Cashew in the year under review. Of them 22,022 kg of Peel Cashew and 7,029 kg of Cashew flesh had been purchased from the external persons. Accordingly, 11,430 kg of Cashew had been purchased from outside and as such the estates of the Corporation had reached a Cashew production as low as 20,000 kg.
- (g) **Research and Development**
- A sum of Rs.4,631,970 had been spent for the Kansamalawa and Puttalam Research Centres in the year under review and the following observations are made in this regard.
- (i) Though a research proposal before being conducted researches should be approved, proposals for only 2 researches in the Puttalama Research Centre had been furnished.
- (ii) Continuous and formal progress reports, enabling to evaluate the research progress had not been presented.



4.1 Transactions of Contentious Nature

- (a) Instead of using a proper computer software, suitable for accounting purposes, a software to which all accounting data could not be input had been used, and as such a Computerized Trial Balance had not been prepared and it had been manually prepared instead.
- (b) One rupee is charges per kg of peel Cashew from the Private imports of Peel Cashew on the decision of the Board of Directors and a sum of Rs.2,150,000 had been recovered in the year under review and it had been brought to accounts under miscellaneous income in the financial statements.

4.2. Management Activities

Although the Corporation had cultivated Cashew in 15 estates, 17, 650 acres in extent, of them, 200 acres of an estate belonged to the Department of Agriculture, 1,874 acres of 3 estates, 15,280 acres of 6 estates 151 acres 135 acres and 10 acres belonged to the Land Reform Commission, Government, Department of Conservation of Forest, Elkaduwa Plantation Company and the Livestock Development Board respectively, action had not been taken to acquire those lands to the Corporation.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) The boiler and related equipment used for boiling Peel Cashew in the Cashew Processing Centres in Nadagamuwa and Puttalama had been idle for more than 10 years. As such, more wastages occurred when cutting Peel Cashew.
- (b) Sixteen motor cycles which could be used in the Nathagamuwa Cashew Processing Centre had been idle. Had they been not used for the functions of the Corporation, necessary action had not been taken to dispose of them properly.

- (c) Estate Superintendents' bungalows in the Kandachchi estate, 328 buildings of Store Keepers and Labourers and buildings including the school had destroyed. Those properties included vehicle service station, 3 water tanks with 20,000 liter capacity and one cultivation well.

4.4 Personnel Administration

The following observations are made.

- (a) The approved and actual cadre of the Corporation stood at 224 and 184 respectively and as such 40 vacancies had existed. Two officers had been recruited to the Post of Labour Supervisors in excess of the cadre and 9 employees had been recruited on contract basis.
- (b) Without the approval of the Department of Management Services, a market promotion officer had been recruited on the decision of the Board of Directors met on 28 October 2016.
- (c) Two executive grade officers of the Corporation had been recruited, contrary to the qualifications stated in the scheme of recruitment.

5. Accountability and Good Governance

5.1 Tabling the annual reports

The annual report of the Corporation for the year 2014 had not been tabled in Parliament and a draft annual report had not been presented in accordance with, Public Finance Circular No.PF/PE/21 dated 24 May 2002.

5.2 Budgetary Control

In comparing the budgeted figures with actuals in the year under review variances ranging from 14 per cent to 765 per cent were observed, thus the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Weaknesses in systems and control 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.

<u>Areas of systems and control</u>	<u>Observations</u>
(a) Personnel Administration	Although more staff had been employed to the extension Division than the staff employed to the Cashew Plantation, the expected objectives had not been achieved.
(b) Assets Control	(i) Not taking action to acquire the legal ownership of Cashew estates. (ii) Not taking action to get the maximum productivity from Cashew estates belonging to the Corporation.
(c) Stock Control	Stock of Cashew purchased from external parties by the Cashew Processing Centre at Nadagamuwa had not been entered in a proper register.
(d) Accounting	(i) The software system used for accounting purposes had not been updated to suite the Corporation. (ii) Non-preparation of a consolidated Trial Balance.



15

(iii) Deviation from Sri Lanka Accounting Standards.

(e) Debtors Control

Action had not been taken to recover the debts receivable from sale of Cashew on time.

H.M.Gamini Wijesinghe
Auditor General

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

Expression of opinion on the part of the Corporation with regard to the issues raised by the Auditor General's Report issued 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 2016 and intimation of corrective measures expected to be taken.

- 2.2.1 (a) From the current year onwards, action will be taken to incorporate the disclosures mentioned herein, into the annual accounts as appropriate.
- 2.2.1 (b) (i) Action will be taken to forward the disclosures in this respect with the annual accounts in the current year.
- 2.2.1 (b) (ii) From the current year onwards, action will be taken to incorporate the disclosure with regard to the matters contained in this audit paragraph, into the annual accounts as appropriate.
- 2.2.1 (b) (iii) This is merely a presentation error and will not have any impact on the operational or financial outcome of the Corporation. Action will be taken to present the income and expenditure separately, without setting them off as mentioned in this audit paragraph, in future.
- 2.2.1 (c) Processing and value addition is a complex process and the Services of a Chartered Accountants' Institution was obtained to calculate the cost to suit the process. Also, the sale price of the products was decided according to the market competition, with the intention of earning a profit from the total sale, in the end. Accordingly a net profit of Rs. 6.954 million has been earned in 2016 from the sale of cashew.
- 2.2.1 (d) (i) The depreciation policy on the property, plant and equipment of the Corporation has been prepared as per the accounting standards. Depreciation of all property, plant and equipment has been properly calculated and accounted accordingly.

- 2.2.1 (d) (ii) The revaluation of the pool of vehicles of the Corporation has been commenced, with the involvement of the valuation Department, focusing on the productive life time. Already a part of the revaluation work has been completed and the relevant reports have been received. As soon as the remaining revaluation work is finalized, action will be taken to include those revaluations in the accounts books.
- 2.2.1 (d) (iii) Even though only the accumulated depreciation value of property, plant and equipment as at the ending date of the financial year of 2016, has been mentioned under no: 01 of the notes to the accounts attached to the Annual Accounts, details of accumulated depreciation as at the commencing date of the year under review, depreciation relevant to the year under review and the depreciation of the assets disposed of, have been disclosed through property, plant and equipment schedules prepared separately in respect of all cost centres of the Corporation.
- 2.2.1 (e) (i) (ii) Practical difficulties exist in obtaining the services of an outside expert in the evaluation of the employees' benefits, as well as difficulty of securing necessary financial provisions for this purpose. Accordingly, maximum attempt has been made to gather relevant information and to evaluate the employee benefits and thereafter to include these in the accounts books. However, as soon as adequate financial provisions are secured, the services of an outside expert will be obtained in this respect.
- 2.3 (a) These unsettled account balances mentioned herein, have been brought forward in the accounts books owing to the lack of sufficient funds for payment. As soon as sufficient funds are received, action will be taken to settle these balances.
- 2.3 (b) This value of Rs. 12,389,497.00 (amounting to the percentage of 93.64%) consists of loans payable from various government institutions for the sale of cashew plants of the Corporation, out of credit value of Rs.13,230,715.00 mentioned in the audit paragraph which the Corporation

had been unable to get recovered, for over a period of 03 years. Even though many attempts had been made for a prolonged, time sending out reminders for the recovery of the funds receivable for the sale of cashew plants, it had not become successful. Also, the aforementioned credit value of Rs. 13,230,715.00 is made up of Rs. 775,133.99 receivable from the Department of Inland Revenue, as withholding tax (5.85% as a percentage). Even though discussions have been held for the recovery of these withholding tax amounts, the recovery of such amounts has been failed.

2.3 (c) As has been mentioned previously, this unsettled account balance, also has been brought forward in the accounts books owing to the lack of sufficient funds for payment. As soon as sufficient funds are received action will also be taken to settle this balance.

2.2.1 (d) As per the written notification made by the Land Reclamation Commission requesting the payment of the relevant tax monies for the Achchigewatta Estate in Puttlam, of the Corporation, relevant tax monies have been paid up to 2016. No written notification has been made in respect of any other tax liabilities.

2.4 (a) Information necessary for the preparation of income tax statements, in respect of the 05 assessment years herein mentioned, have already been handed over to a tax consultation institute. Future action will be taken accordingly.

2.4 (b) A detailed letter has been sent to the Department of Inland Revenue, with copies to the Auditor General as per the decision of the board of directors, on the recommendation of the Audit & Management Committee, requesting the exemption of the Sri Lanka Cashew Corporation, which is a Corporation totally based on agricultural products, from being imposed with the value added tax and the nation building tax and thereafter a reminder has also been sent.

Even though, the Department of Inland Revenue has informed this Corporation in writing of the receipt of the said letter by the Committee on defining tax laws of the Department of Inland Revenue, no notification has been made thus far with regard to the decision taken in this respect.

2.4 (c) Since the contractor who was chosen after the first contractor, had successfully performed the task assigned to him by the Corporation, no issue has arisen in this respect. However, action will be taken to obtain performance securities according to the relevant format from the bidders, in future procurement activities.

Payments to be made to the relevant contractor have not been finalized thus far, while an advance of 75% of the agreed contractual amount for the deforestation of the land in extent of 100 acres and an advance of 50% of the agreed contractual amount for the deforestation of the remaining land in extent of 50 acres have been paid, for the time being.

While this work was in progress several landmines had exploded within the said land and upon notifying the bomb disposal unit of the army in this respect the relevant investigations were carried out to ensure that a land area of 120 acres is free of landmines.

Accordingly, since a considerable time would have to be spent for the investigation of the remaining acres, a committee was appointed to conduct a preliminary investigation and following a recommendation made by the said committee, the aforementioned advance payments have been made also on the recommendation of the board of directors. Once the relevant divisions have ensured in writing, that no threat of landmines exists over the said land, a committee will be formally appointed to carry out the surveying practically and thereafter the final payments will be made accordingly.

4.1 (a) (i) Cashew cultivation has been carried out in the Kondachchi Estate of the Corporation, in 100 acres, 250 acres and 100 acres in the years 2014, 2015 and 2016 respectively.

By now, ring weeding around cashew trees by employing labourers and cutting of grass using tractors, in the 100 acres land of the said estate, cultivated in 2014, have been fully completed and accordingly harvesting is being carried out.

Also, weeding is being carried out to the maximum within the 250 acres land cultivated in the year 2015, according to the available resources and all weeding works will be completed definitely, before the time of harvesting.

Also, as of now ring weeding around the cashew plants by employing labourers in the blocks of the 100 acres land cultivated in 2016, has been completed and the weeding in the field will be carried out using machinery in the future.

4.1 (a) (ii) The cultivation of these cashew plants has been carried out during the latter half of the year 2014 and the first half of the year 2015 and the potentiality for obtaining a commercial level harvest can be expected in the years 2019-2020. Before such time, storing facilities for the harvest being gathered and other necessary facilities will be put in place.

4.1 (a) (iii) Already, cabinet approval has been received for the implementation of a project within a 4000 acre land of this estate under the Public - Private Partnership. Future courses of action will be taken according to the said cabinet decision.

4.1 (a) (iv) 200 acres of the Achchigewatte estate in Puttlam remain as uncultivable land due to gravelly soil. 70 acres from the remaining land area have been newly cultivated while it has been planned to start more new cultivations in a block of land in extent of 100 acres in the current year.

In addition to this, plans have been drawn up to establish new cashew cultivations in a block of land in extent of 500 acres in the estate, by outsourcing the cultivation of inter-crops, within the current year.

4.1 (a) (v) The Eluwankulama Estate of the Corporation, from its inception has been cultivated with high yielding bud grafted cashew varieties and is being maintained according to the Good Agricultural Practices. Accordingly, the yield from a tree of the said estate is considerably high compared to that of other estates.

4.1 (a) (vi) According to the calculations made in 2012 and 2013 in Achchigewatte Estate in Puttlam, 28% of cashew plants had been destroyed due to environmental factors which were beyond control, out of the cashew cultivation having a 72% success rate. Necessary measures will be taken for replanting to be carried out in place of the destroyed cashew plants, during the year.

4.1 (b) Formal calculations are made and reports are being maintained on the cashew trees in the plantations of the corporation. However, necessary action is being taken to number every tree on the estates and to maintain relevant reports, during the current year.

4.1 (c) (i) - (iv) and 4.1 (d) (i) - (iv)

The cashew subsidy programme is being implemented in 19 districts, where conducive climatic conditions for cashew cultivation prevail. Even though this subsidy programme has been continuing from several years in the past, the overall success rate of the relevant programme ranges from 35% - 40% estimated on the remaining number of cashew plants in the plantations. The decline of the success rate of the subsidy programme is directly attributable to the below mentioned reasons.

1. Cashew plants dying out in large numbers owing to the drought conditions and the difficulty of supplying water to cashew plants.
2. Loss of interest and negligence on the part of the beneficiaries of the subsidiary programme, with the passing of time, as a result of provision of cashew plants to small lands (starting from lands in extent of half an acre) under the subsidy programme.

3. Weather and environmental factors harmful to the crop.
4. Damages caused to crops by wild animals.
5. Unexpected damages caused by fire.
6. Due to the longer yielding time of cashew trees, the loss of interest of subsidy recipients, resulting in their abandonment of cultivation and resorting to short term yielding crops.
7. As more attractive subsidy benefits are offered for other cultivations, the subsidy recipients resorting to such cultivations, with the passing of time, abandoning the cashew cultivations.
8. Other personal reasons affecting the subsidy recipients.

Following extensive studies carried out with regard to the above situation, the decision was taken at the Board of Directors' meeting held on 31.03.2017 to implement the cashew cultivation subsidy programme from the current year (from 2017) onwards, by placing priority on the below mentioned locations/ sites.

1. Land suitable for cashew cultivation within the areas of land occupied by camp premises of the three armed forces and of the Department of Civil Security.
2. Land suitable for cashew cultivation within the areas of land occupied by open air prison camps.
3. Land suitable for cashew cultivation, belonging to Buddhist temples, catholic churches, hindu kovils and islam mosques.
4. Land suitable for cashew cultivation within land areas where government schools are situated.

It is expected that physical resources as well human resources necessary for the existence and growth of cashew cultivation, can be acquired adequately through the adoption of this methodology. Accordingly, the target has been set to exceed the overall success rate of 50% of the cashew cultivation subsidy programme, during the

current year and also to achieve a success rate of over 75% of the subsidy programme during the next few years.

- 4.1 (e) Under standard conditions and dry weather conditions, the field weight of raw cashew harvest is normally reduced to 15% owing to rotten, empty and wet weight. However, the increase of the percentage of wet weight surpassing the standard percentage, owing to environmental reasons under rainy weather conditions is unavoidable. At the time of the harvesting of the year 2016, a higher rainfall had been experienced in all parts of the island even resulting in floods.

Accordingly, under such circumstances, the increase of the percentage of rotten, empty and wet weights of raw cashew than that of their standard weights is unavoidable.

This matter relating to the increase of rotten, empty and wet weight percentages than that of standard weights had been taken up at the Audit and Management Committee meetings held during the year under review and necessary reporting has been made to the Board of Directors.

- 4.1 (f) Owing to various environment factors, especially the high rainfall experienced during the cashew harvesting season the overall cashew harvest in the island declined significantly in 2016. Since the raw cashew stocks from corporation's estates proved to be inadequate for the continuation of the production process and for undertaking orders, raw cashew stocks had to be purchased thus, from external suppliers, due to the destruction of the cashew harvest (owing to excessive rotten and empty cashew nuts) after being subjected to heavy rainfall.

Also, the jobs of the employees attending to the production process at the processing centre being at risk due to the inability to continue the production process owing to the shortage of raw cashew, their abandonment of employment for other jobs resulting in the most difficult task of finding employees again for the production process and the need to

retain the employees without any disturbance being caused to the processing work, had all contributed to the situation which necessitated the purchase of raw cashew stocks from external suppliers.

However, within the year under review, nearly 20,000 kilograms of cashew kernels have been produced through the processing of nearly 100,000 kilograms of raw cashew collected from the Corporation's estates.

Also, in order to supply cashew kernel stocks necessary for the orders undertaken as has been mentioned above, raw cashew stocks as well as cashew kernels stocks had to be purchased from external suppliers as per the requirements.

- 4.1 (g) (i) (ii) All research proposals and research work have been approved by the Cashew Research Management Committee, being operated with the involvement of higher ranking officers of the Faculty of Agricultural and Plantation Management of the Wayamba University and the committee reports have been forwarded for the approval of the Board of Directors. The progress of all research work is formally and continuously supervised by the Cashew Research Management Committee on a quarterly basis.

A defect is observed in the numbering of audit paragraphs in the Auditor General's Report and audit paragraphs have been presented two times under no: 4.1. Since no changes can be made to the numbering of the report, the answer report has been forwarded indicating the relevant numbers in the same manner.

- 4.1 (a) No provisions can be found in the current year to bear the costs necessary for the modernization/ update of the said computer software by connecting it to the automated buying and selling system, with a valid license. Therefore, action will be taken to complete the modernization/ update work of the said computer software in the year 2018.

- 4.1 (b) The fee being charged from importers, aimed at covering the management and administration costs of the corporation in the importation of raw cashew is indicated under miscellaneous income, as mentioned herein.

4.2 Necessary action is being taken at present by the corporation together with the line ministry, to formally acquire the legal rights of the estates/ plant breeding centres, mentioned in this audit paragraph. Already a cabinet paper has been submitted through the line Ministry in this respect. A considerable period of time would have to be spent by adopting the procedure that should be followed in the acquisition of the legal rights of these lands.

Also as of now, the process for the transfer of legal rights of the Eluwankulama estate to the corporation has reached the final stages.

4.3 (a) It should be primarily mentioned that no wastage of raw cashew stocks is resulted, due to the cutting of the raw cashew stocks, which have been sundried, without boiling them with the use of boilers.

However, when raw cashew stocks are cut in this manner, a certain decrease in the percentage of whole cashew kernels is resulted. Apart from the non-usage of boilers, certain other factors such as the size of raw cashew, the environmental factors which have affected cashew stocks while in the field, have had an impact on this.

Also since the repair work of the boiler at the Nedagamuwa processing centre, is a specialized one, a practical difficulty exists in obtaining quotations from qualified institutions specializing in such repairs with accountability. Necessary action in this respect is also being taken at present and steps will be taken to finalize the relevant repair work as soon as possible.

Also, the boiler system at the Puttlam processing centre mentioned herein, was established on the premises 24 years ago and a number of deficiencies have been observed within the system, internal corrosions the pipeline through which water flows into the boiler being fully corroded, the belt on which the raw cashew travel into the boiler being fully decayed, the tank where water is stored being fully corroded, breakdown of the electricity operating system.

This boiler system had been examined by a technician and subsequent to the said examination, the said technician informed that since the operating system had completely broken down, the purchase of a new boiler and replacing the old one with it would be more profitable to the Corporation, when compared with the cost that would have to be borne for the repair of the old one.

Therefore, action will be taken in future to obtain a valuation report from a recognized institution with regard to the current value of the boiler and to dispose of the said boiler adhering to the standard procedure.

4.3 (b) All of these motorcycles mentioned herein, have been received by the Nedagamuwa processing centre from the external offices the corporation from time to time to be disposed of and these motorcycles have been parked within the processing centre grounds, very much protected without any damage being caused to them by rain or sunlight.

Motorcycles which had been received by the processing centre previously, for disposal purposes were sold and other than 02 motorcycles (motorcycles bearing the registration nos. 144-3134 and 144-3141) which could not be sold due to their advanced stage of decay, 14 motorcycles out of 16 motorcycles mentioned in the audit query have been received after the aforementioned sale of motorcycles.

Most of the motorcycles, out of the previously mentioned 14 motorcycles, have been received last year, that is in the middle and at the end of the year 2016. Generally, motorcycles are disposed of, once sufficient number of motorcycles have been accumulated for the calling of tenders. Accordingly, the disposal of motorcycles which have been accumulated at present, will be finalized in future.

4.3 (c) A building which had been destroyed due to terrorist attacks was renovated and is currently being used while repair works of another two buildings have already been commenced.

It is expected to renovate the other buildings step by step, systematically corresponding to the requirements that would arise through the development of the estate's land and according to the funds available, in future.

4.4 (a) Two persons have been recruited to the posts of Labourer Supervisor, as mentioned in this audit paragraph on essential reasons in order to ensure the continuance of work in the estates and the approval for the said posts has been sought from the Department of Management Services through the line Ministry.

4.4 (b) The Former Sales Manager of the Corporation was demoted to the post of Sales Promotions Officer with effect from 20.04.2015, as per a decision reached by the Board of Directors, on account of several indisciplinary acts, proven through the conduct of a formal disciplinary inquiry. Since the said Former Sales Manager did not report for duties from the aforementioned date, due to him initiating legal actions, the post of Sales Promotions Officer remained vacant from the said date.

Later, on the exigency of service, a senior lady officer was recruited to the post of Sales Promotions Officer through a formal interview and in consideration of the need for sales promotions of the corporation, the approval of the Department of Management Services has been sought for an additional post of Sales Promotions Officer on the recommendation of the Board of Directors.

4.4 (c) At present, all executive officers of the corporation have satisfied the required qualifications stipulated by the approved Scheme of Recruitment and the approved Scheme of Promotions.

5.1 The annual reports prepared in respect of the years 2004 and 2015 have been handed over to the line Ministry for submission to the cabinet of Ministers for approval. Immediately following the grant of such approval, necessary action will be taken to table the relevant annual reports in Parliament.

5.2 Expenditure control will be carried out through the comparison of the actual income and expenditure with the estimated income and expenditure mentioned in the budget document.

6 (a) - (e)

Detailed Expression of opinion with regard to the matters contained in the areas of systems and control mentioned herein and the measures to be taken, have been indicated in this report and in future, action will be taken by paying special attention to these areas of systems and control.

Sri Lanka Cashew Corporation

Five Year Summary

	2016	2015	2014	2013	2012
	Rs.	Rs.	Rs.	Rs.	Rs.
PROFIT & LOSS ACCOUNT					
Net Salaes	94,906	75,297	115,370	134,180	150,107
Cost of sales	(68,648)	(55,055)	(62,376)	(82,586)	(59,939)
Gross Profit	26,258	20,242	52,994	51,594	90,168
Other income	28,224	13,974	4,219	10,494	1,846
Recurrent Grant	16,923	27,798	21,235	22,775	25,910
Administration Expenses	(39,141)	(44,001)	(53,396)	(43,493)	(44,455)
Amortization	(634)	(992)	(3,283)	(3,045)	(3,715)
Net Profit From Commercial Sector	31,630	17,021	21,769	38,325	69,754
Expenses Over Income From Service Sector	(68,155)	(64,749)	(47,826)	(37,358)	(25,520)
Net Profit/Loss	(36,525)	(47,728)	(26,057)	967	44,234
BALANCE SHEET					
Non Current Assets					
Propety Plant & Equipment	100,869	110,208	77,005	63,916	64,986
Mature Area Expenditure	29,303	31,442	35,141	30,466	31,620
Capital Working Progress	-	-	1,046	215	-
Immature Area Expenditure	41,362	33,243	25,853	29,288	19,982
Other Small Projects	949	806	615	619	707
Total Non Current Assets	172,483	175,699	139,660	124,504	117,295
Current Assets					
Stock	28,916	30,131	48,712	29,460	46,135
Trade Debtors & Other Receivables	20,798	24,411	24,843	60,042	70,822
Advance & Prepayments	4,841	4,287	10,080	5,461	3,374
Cash & Cash Equivalents	7,874	38,846	60,879	66,529	28,676
Total Current Assets	62,429	97,675	144,514	161,492	149,007
TOTAL ASSETS	234,912	273,374	284,174	285,996	266,302
Equity & Liabilities					
Equity					
Initial Capital	40,000	40,000	40,000	40,000	40,000
Government Grant	123,860	114,881	78,957	58,745	34,959
Grant from Other Parties	18,530	18,917	19,304	19,691	17,911
Capital Reserves	17,442	17,442	22,215	22,241	23,676
Profit & Loss Account	(27,975)	8,550	56,278	81,339	77,788
Total Equity	171,857	199,790	216,754	222,016	194,334
Non Current Liabilities					
Provision for Gratuity	40,060	52,471	42,415	33,875	31,272
Vehicle Lease	-	-	-	3,257	6,513
Total Non Current Liabilities	40,060	52,471	42,415	37,132	37,785
Current Liabilities					
Trade Creditors & Other Payables	22,995	21,113	25,005	26,849	34,183
Total Current Liabilities	22,995	21,113	25,005	26,849	34,183
TOTAL EQUITY & LIABILITIES	234,912	273,374	284,174	285,997	266,302
Return on Net Assets	%	(21.3)	(23.9)	(12.0)	0.44
Net Profit Ratio	%	(38.5)	(63.4)	(22.6)	0.7
Current Ratio	Times	2.7	4.6	5.8	6.0
Quick Asset Ratio	Times	1.5	3.2	3.8	4.9
Total Income to Total Expenditure		0.8	0.8	0.9	1.0