AUDIT OF THE CYPRUS GRAIN COMMISSION
Executive Summary

AUDIT OFFICE OF THE REPUBLIC
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AUDIT OF HOUSING FINANCE CORPORATION

Executive Summary

AUDITED ENTITIES

Housing Finance Corporation

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Executive Summary

The Cyprus Grain Commission (CGC) was established in 1954, as a Legal Entity of Public Law, with the responsibility to import and trade of grain and secure a sufficiency of grain for the purpose of animal feed and flour production, under the provisions of Grain Control Law (Cap. 68), which was amended and renamed to Cyprus Grain Commission Law, in accordance with the Cyprus Grain Commission (Amendment) Law of 2004 (L. 143(I)/2004), dated 30.4.2004.

This audit was based on audit evidence for the period 2012 - 2018, except where otherwise stated in the report and was carried out in the framework of performance and compliance audit.

The overall CGC's picture refers to an extremely poor financial management, inefficient problem-solving procedures, continuous impairment of a public investment and, in general, to an organization that was left to falter, without the expected administrative supervision. This situation becomes even more serious given that the then Permanent Secretary of the Ministry of Finance was, for a long period of time, CGC's President and who would not be expected to allow CGC to be led into its current situation.

The most important audit findings are summarized below:

- CGC is expected to face, in the near future, a serious liquidity problem, which is expected to deteriorate and threaten its viability.
- The CGC's credit policy carries a high risk of non-collection of amounts due, since, according to the unaudited financial statements for the year 2016, trade debtors amounted to €7,2m, of which an amount of €3,1m related to provisions for doubtful accounts.
- Following the Eurogroup decision of March 2013, both CGC and the relevant Pension Plan suffered serious losses of €6,3m and €11,2m, respectively, due to the transfer of significant cash deposits to both banks, which were restructured through "bail in" just a month after the respective transfers. At that time, CGC's President was the then Permanent Secretary of the Ministry of Finance and General Manager was a former Executive Director of the Central Bank of Cyprus, who both would be expected to be aware of the risks involved in transferring funds to the aforementioned banking institutions at that time.
- CGC proceeded with the construction of outdoor warehouses/platforms in Menogeia, of a capacity of 60.000 square meters, which were put into operation in 2001, with a total cost of over €2,3m. These facilities were only satisfactorily

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utilized in 2001, 2003 and 2004, while they do not appear to have substantially contributed to any of the CGC's activities. Since then, the facilities appear to have been left unused and unprotected against theft and vandalism. Therefore, the investment does not seem to be justified and, on the contrary, a question of squandering public funds may arise.

- There was insufficient audit evidence to confirm inventory valuation, which led our Office to issue a qualified report on the financial statements for the year 2011 and the private audit firm to issue a disclaimer of opinion report, regarding the financial statements for the years 2012 to 2015.
- Despite the importance of the issue of a disclaimer of opinion report on the financial statements for the years 2012 to 2015 and the significant delay observed in the audit of the financial statements for the year 2016 and the preparation of the financial statements for the years 2017 and 2018, the Board of Directors (BoD) does not appear to have taken any effective actions.
- The Internal Audit Report, which was prepared in 2016, in the context of a relevant contract, was not properly utilized, in order to improve the CGC's internal control systems and safeguards.
    - Government policy to reform/evolve CGC and find a strategic investor to operate Limassol silo will be implemented by passing a number of legislations, which, until today, were neither passed nor forwarded to the House of Representatives for enactment. Also, not all the necessary actions for effective implementation of the terms of the BoD were launched in time, in accordance with the relevant Decisions of the Council of Ministers on the reform/evolution of CGC.
    - Not all the necessary actions were taken in time, including a market research and relevant report preparation, before the conclusion of the contract on the purchase of consulting services by a private audit firm to find a strategic investor, who will lease the Limassol silo. Questions are also raised about the transparency of the whole market research process.
    - Due to the retirement and non-replacement of the Head of Accounting Department, who is defined as the officer who exercises control over the revenues and expenditures of CGC, the payments made from 15.3.2019 onwards may not be lawful.
- Ambiguity regarding the competence to handle a number of issues, which indicates insufficient administrative supervision.

- BoD's decisions over time, on the suspension and not on the final termination of the operation of CGC's Nicosia District Office, bring additional financial costs.
- The poor condition of the facilities in the Limassol and Larnaca silos may endanger the safety of both the staff and the grain inventory.
- Immovable property of CGC, of a significant value, which was acquired through land consolidation by the State, was not used for the purpose of the land consolidation.
- CGC does not ensure the calibration of its scales, resulting in disputes regarding the weight of the cargo it receives and in difficulties to calculate and claim any deficit compensation.
- Harmonization with the requirements laid down by the Harmonized Requirements and Procedures for Safe Loading and Unloading of Bulk Carriers Law of 2004 was not ensured.

The findings of the audit, together with our recommendations, were communicated by our letter, dated 18.10.2019, to the President of the BoD of CGC for comments and opinions, which have been incorporated, where appropriate, to this Report, as well as for taking the necessary reparatory actions. With regard to several issues of the Report, the President of CGC informed us that, in consultation with the Permanent Secretary of the Ministry of Finance, an external investigating officer will be appointed.