

Coconut Development Authority - 2011

1. Financial Statements

1:1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the financial statements give a true and fair view of the financial position of the Coconut Development Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) The Capital Grants received up to the end of the year 2011 from the Government and the Cess Fund amounting to Rs.75,192,353 and Rs.64,825,402 respectively had not been brought to account in terms of Sri Lanka Accounting Standard No.24.
- (b) According to Sri Lanka Accounting Standard 40, the income generating assets as well as other properties should be shown annually in the final accounts at fair value. Nevertheless, the value of the building at Duke Street, Colombo Fort owned by the Authority had been omitted in the books.

1.2.2 Accounting Deficiencies

Accounting deficiencies amounting to Rs.17,666,574 revealed at test checks of transactions were brought to the notice of the Chairman. The financial statements amended by adjusting those deficiencies had been presented again. As such, the possibility of further accounting deficiencies outside the sample cannot be ruled out.

1:2:3 Accounts Receivable

The following observations are made.

- (a) The Authority had failed even by the end of the year under review for the recovery of a sum of Rs.1,450,000 receivable from a private Agrarian Company from the year 2006.
- (b) A sum of money misappropriated by an officer of the Authority and the interest on that money recoverable as at 31 December 2011 amounting to Rs.1,580,992 had been shown continuously in the accounts of the Millers' Fund without being recovered. The Chairman informed that a case in this connection is pending in the High Court.
- (c) The interest on a loan of Rs.26,715,037 receivable up to 31 December 2007 from a company owned by the Government amounting to Rs.86,147,529 had been written off from the books in the year 2009 on a Cabinet Decision received in the year 2008. Nevertheless, the sum of Rs. 16 million representing the interest receivable in respect of the years 2008 to 2011 but remaining irrecoverable had been adjusted to the accounts of the Coconut Oil Price Stabilization Fund. In addition, an interest free loan of Rs.31.55 million had also been granted to that Company. The Authority was not able to recover those loans even up to the end of the year under review.
- (d) The debtor balance included debtors balances older than 01 year amounting to Rs.1,680,652.

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

Instances of non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Public Administration Circular No.22/99 of 08 October 1999	Contrary to the Circular instructions, a motor vehicle without a driver and fuel had been allocated to a member of the Board of Directors. The Authority had spent a sum of Rs.264,886 in the year 2011 for carrying out repairs to that motor vehicle
(b) Financial Regulations 104	Information on accidents to motor vehicles had not been presented to the Auditor General

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a deficit of Rs.13.8 million and as against the surplus of Rs.19.01 millions for the preceding year and indicated a deterioration of Rs.32.81 million. The decrease of the Government Grants and the other income by a sum of Rs.58 million as compared with the preceding year had been the major reason thereto.

2:2 Analytical Financial Review

 The following observations are made.

- (a) Provision for bad debts amounting to Rs.16 million or 46 per cent had been made for the total sundry debtors of the Authority amounting to Rs.35 million.
- (b) The total income of the Authority comprised Treasury grants amounting to 65 per cent, interest income amounting to 19 per cent, operating income amounting to 15 per cent and sundry income amounting to 1 per cent.
- (c) Provision for bad debts had been made even during the year on the total interest income of the year under review due on the loan granted by the Coconut Oil Price Stabilization Fund to a Government Owned Company amounting to Rs.4 million.
- (d) Several significant accounting ratios for the year under review and the preceding year are given below.

	Year under Review	Preceding Year
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Current Ratio	53.1	38.1
Quick Assets Ratio	52.1	37.1

The average current ratio and the quick assets ratio of an institution should be in the ranges of 2:1 and 1:1, but the current ratio and the quick assets ratio of the Authority are unusual. Thus it was observed the funds management had not been prudent.

3. Operating Review

The Coconut Development Authority comprises 05 Functional Divisions, namely, the Processing Development Division, the Quality Control and Quality Assurance Division, Marketing Development and Research Division, the Financial Division and the Administration Division. In addition to the above Divisions, the Authority had maintained the Millers' Fund for the Development of the Production of Desiccated Coconuts and the Coconut Oil Price Stabilization Fund. A summary of the targets of key

functions and the achievements in respect of each Division in the year under review is given below.

3:1 Performance

3:1:1 Financial Performance

(a) No performance whatsoever was observed in connection with the allocation of Rs.192.4 million made for 15 projects for the year 2011 under the different Divisions of the Authority.

(b) The performance relating to 08 projects planned for implementation under the Quality Control and Quality Assurance Division, the Marketing Development and Research Division and the Processing Development Division ranged between minimum levels of 1 per cent to 26 per cent.

3.1.2 Increasing Recurrent Expenditure and Diminishing Development Expenditure

A comparison of the capital and recurrent expenditure of the Authority for several past years revealed an increasing trend in the recurrent expenditure and decreasing trend in the capital expenditure in relation to the total expenditure.

	2011 ----- Rs.	2010 ----- Rs.	2009 ----- Rs.
Total Capital Expenditure	66,009,936	72,444,819	121,555,671
Decrease in the total Capital Expenditure as compared within preceding year	9%	40%	-
Total Recurrent Expenditure	122,090,058	118,527,536	120,965,589
Increase in the total Recurrent Expenditure as compared with the preceding year	3%	(2%)	-

3.2 Loss Incurring Projects

 The following Projects implemented by the Authority had incurred losses during several past years.

<u>Project</u>	<u>2011</u> <u>Rs.</u>	<u>Loss</u> <u>2010</u> <u>Rs.</u>
Dunkannawa	1,365,368	2,670,717
Waharakgoda	203,189	268,869
Dambadeniya	20,500	94,130
Nelliya	<u>5,252</u>	<u>122,966</u>
Total Loss	<u>1,594,309</u>	<u>3,156,682</u>

3.3 Delayed Projects

A sum of Rs. 7 million had been approved under the Capital Programmes for the year 2010 for carrying out repairs to the waste water drainage gully of the Narahenpita Office and an advance of Rs.2 million out of that had been paid to the Colombo Municipal Council for the execution of that work. No physical performance whatsoever relating to this project was observed even by the end of the year 2011.

3.4 Coconut Oil Price Stabilization Fund

This is a Fund established 21 years ago with a view to minimizing the adverse effects on the industry due to the fluctuation of the price of coconut oil. The main objective of the Fund is the purchase and storage of coconut oil when the prices fall and issue to the market when the price increases to protect both the industrialists and the consumers. Nevertheless, this Fund had been inactive from its inception. The total assets of this Fund amounting to Rs.256 million had been invested in Treasury Bills by the end of the year 2011.

Contrary to the primary objectives of the establishment of the Fund, two motor vehicles had been purchased for Rs.11 million in the year 2009 by utilizing the funds thereof while a lorry and a van had been purchased for Rs.9,406,117 in the year 2008. In addition 15 double cab motor vehicles had also been purchased in the years 1999/2000.

According to the budget and the Action Plan for the year under review, plans had been made to carry out a development work by utilizing a sum of Rs.145 million from this Fund. But its performance by the end of the year 2011 had been at the minimum level. Out of the sum of Rs.145 million allocated from the Fund, a sum of Rs.110 million had been allocated for activities extraneous to the development of coconut industry.

3.5 Underutilization and Idle Assets

Even though research equipment valued at about Rs. 4.5 million that can be used for conducting research work for the enhancement of the quality of coir fiber and coir fiber related products were available, those remained idle as action had been taken to give priority to production and marketing of coir fiber products.

3.6 Issue of Quality Reports

The following observations are made.

- (a) Without carrying out the microbiological tests on Aflatoxin Sulphur Dioxide in accordance with the Sri Lanka Standard 98:1998 for the issue of quality certificates to the exporters of desiccated coconut, 970 certificates had been issued in the year under review stating that such tests were carried out.
- (b) The microbiological tests in accordance with Sri Lanka Standard 98:1998 for the Aerobic Plate Count and Yeasts and Moulds Colifoms had not been carried out in the issue of quality certificates to exporters for the export of desiccated coconut.

It had been brought to the notice of the Chairman that even though the parameters for the Aerobic Plate Count and Yeasts and Moulds Colifoms had been specified according to the Standard 98:1998 for of Desiccated Coconut, that the exporters do not request for these tests, that these tests covering all the mills are carried out under a monthly plan according to the Desiccated Coconut Quality Control programmes, that the results are issued to the owners of mills and that they take action on the basis of such results to rectify the deficiencies in the laboratories.

3.7 Supply of Resources of the Authority to Other Institutions

Even though Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003 does not permit the Ministry to use resources of Public Enterprises, 02 motor vehicles had been released contrary to that stipulation for the use of the line Ministry.

3.8 Staff Administration

The approved staff of the Authority as at 31 December 2011 and the actual position as at that date are as follows.

Grade	Approved	Actual	Number of Vacancies
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Executive	21	04	17
Non-executive	116	72	44
Junior	<u>45</u>	<u>38</u>	<u>07</u>
	<u>182</u>	<u>114</u>	<u>68</u>

Vacancies in 68 posts relating to operating activities existed even as at the end of the year under review.

4. Systems and Controls

Deficiencies observed during the course of audit were brought to the notices of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting.
- (b) Accounts Receivable
- (c) Motor Vehicles Utilization
- (d) Human Resources Management
- (e) Performance
- (f) Special Projects
- (g) Coconut Oil Price Stabilization Fund