

1. Financial Statements

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1:1 Opinion

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Coconut Research Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Coconut Research Board as at 31 December 2010 and the financial results of its operations and cash flow for the year then ended.

1:2 Comments on Financial Statements

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1:2:1 Accounting Deficiencies

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The following accounting deficiencies were observed.

Accounting deficiencies amounting to Rs. 67,766,279 observed at the test checks of transactions were brought to the notice of the Chairman of the Board. The financial statements were presented again after the adjustment of those deficiencies in the accounts. In the circumstances, the possibility of further accounting deficiencies outside the sample cannot be ruled out.

1:2:2 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The budgeted balance sheet and the budgeted Cash Flow Statement which should be included in the budget in terms of Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been included in the budget for the year under review.

## 2. Financial and Operating Review

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### 2:1 Financial Review

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#### 2:1:1 Financial Results

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According to the financial statements presented, the working of the Board for the year under review had resulted in a deficit of Rs. 14,740,770 after taking into account the Treasury grant of Rs. 135,500,000 received for the year under review, as compared with the corresponding deficit of Rs. 45,847,339 for the preceding year after taking into account the Treasury grant of Rs. 133,300,000 received for that year. As such an improvement of Rs. 31,106,569 in the financial results of the year under review was indicated.

The increase of the Government grant, income from estates and sundry income by a sum of Rs. 17.8 million and the decrease of depreciation and other expenditure by a sum of Rs. 14.7 million in the year 2010 as compared with the year 2009 had been the main contributory factors for the improvement of the financial results.

### 2:2 Operating Review

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#### 2:2:1 Research Activities

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##### 2:2:1:1 Performance Relating to Plant Propagation (Crop Improvement)

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According to the Coconut Development Act, No. 46 of 1971, increasing the coconut crop and the production of improved cultivation models with resistance to pests is a major function of the Board. The Board had established 02 directly responsible Divisions, namely the Genetics and Plant Propagation Division and the Tissue Culture Division with a view to executing these functions.

Therefore, the production of cultivation models resistant to adverse environmental conditions and pests with higher yield potential for increasing the national coconut crop and the productivity has become a national requirement.

A sum of Rs. 72.31 million had been spent during the years 2001 to 2010 for executing this function.

The following observations are made in this connection.

- (a) Only one variety of coconut had been introduced during the years 2001 to 2010 and it had been introduced as “Kapruwana”.
- (b) Subsequent to the introduction of this variety of coconut, a total of 12,500 seed coconuts had been distributed for planting during the 06 intervening years at the rate of 2,500 seed coconuts per annum.
- (c) The contribution from this process had been at a very low level due to the low production of the new variety of coconuts since its introduction up to the year 2010 and the tardy nature of the efforts taken for its expansion.
- (d) Even though the production of varieties of coconuts resistant to adverse environmental conditions and pests has become a national requirement, the Board had failed during the past 10 years to produce a variety of coconut with such features.

#### 2:2:1:2 Crop Protection Division

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According to the Coconut Development Act, improvements to the technology needed to protect the coconut lands from the pests to minimize the damage to the crop is a function of high priority. A separate Division, namely, the Crop Protection Division had been established in the Board with a view to achieving this objective.

Accordingly exceeding a sum of Rs.50 million had been spent during the past 10 years for the control of pests including the control of Coconut Mita the Weligama leaf withering disease.

The following observations are made in this connection.

(a) Control of Coconut Mita

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According to the Performance Report of the Research Board for the years 2006-2010, out of the annual coconut crop, 12 per cent to 13 per cent had been affected by the Mita damage. A successful and sustainable system of eradication of the Mita damage had not been identified and as such 04 chemical methods for the short term control of the pest had been introduced since the identification of the pest in the year 1998 up to the year 2010.

(b) Control of the Weligama Leaf Withering Disease

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This disease was identified in the year 2006 and a sum exceeding Rs. 18 million had been spent since that time up to 31 December 2010 for the control of the disease.

Nevertheless the Board had failed up to the end of the year 2010 to find out a methodology for the complete control/cure of the disease. As such, the uprooting and destruction of all the trees affected by the disease had been recommended by the year 2010 to prevent the spread of the disease.

The Chairman informed that so far no other country has found a complete cure this disease.

2:3 Estates Management

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The Board had managed 04 Genetics Resources Centres and 06 Research Centres during the year 2010. The following matters were observed at an analytical review of the crops and income of those estates.

(a) The data on the coconut crop of those centres in the year 2009/2010 are given below.

Genetics Resources/Research Centre	Estimated Crop Nuts		Number of Coconuts Plucked Nuts		Number of Fallen Coconuts Nuts		Total Crop Nuts	
	2010	2009	2010	2009	2010	2009	2010	2009
	Bandirippuwa	678,728	762,414	613,381	686,073	30,605	45,898	643,986
Pallama	482,000	548,512	418,695	474,311	52,331	45,611	471,026	519,922
Pottukulama	699,902	733,345	598,611	769,081	75,577	156,456	674,188	925,537
Ambakele	1,345,000	1,577,030	927,696	1,226,928	235,304	245,840	1,163,000	1,472,768
Ratmalagara	632,175	719,747	602,264	623,137	39,929	54,590	642,193	677,727
Walpita	85,768	112,995	56,705	54,420	15,731	21,054	72,436	75,474
Makandura	400,000	505,614	462,088	518,889	41,863	44,149	503,951	563,038
MaduruOya	513,017	477,030	300,496	487,338	115,613	134,565	416,109	621,903
Dunkannawa	19,940	17,013	28,426	28,956	6,460	4,536	34,886	33,492
Middeniya	-	-	1,910	101	-	-	1,910	101
Total	4,856,530	5,453,700	4,010,272	4,869,234	613,413	752,699	4,623,685	5,621,933

The total crop of 5.6 million nuts in the year 2009 had decreased by 1.0 million nuts or 17 per cent to 4.6 million in the year 2010. The Chairman informed that it was due to the changes in the climate.

(b) Yield per Acre and the Average Annual Yield per Tree.

Genetics Resources/Research Centre	Extent of Land	Number of Bearing Trees	Fallen Coconuts	Total Crop (Nuts)	Average Annual Crop per Tree	Crop per Acre	Nuts per Bunch (Average Annual Crop per Tree x 12)	Percentage of fallen coconuts
Bandirippuwa	207	11,490	30,605	643,986	56	3,111	5	5
Pallama	432	8,653	52,331	471,026	54	1,090	5	11
Pottukulama	170.5	9,562	75,777	674,188	70	3,954	6	11
Ambakele	318.6	17,749	235,304	1,163,000	66	3,650	6	20
Ratmalagara	243.5	12,526	39,929	642,193	51	2,637	4	6
Walpita	32	1,357	15,731	72,436	53	2,264	4	22
Makandura	132	5,030	41,863	503,951	100	3,818	8	8
MaduruOya	147.4	6,853	115,613	416,109	61	2,823	5	28
Dunkannawa	20	767	6,460	34,886	45	1,744	4	18
Middeniya	45.5	125	-	1,190	15	42	1	-
Total	1,748.5	74,112	613,413	4,623,685				

- (i) The average annual yield per tree of the other estates except the Makandura, Pottukulama, Ambakele and Maduru Oya Estates had been less than 60 nuts.
- (ii) Even though the average yield of coconuts per acre should be 4,500 nuts, the yield of the Pallama and Dunkannawa Estates had been less than 2,000 while the yield per acre of the Ratmalagara, Walpita and Maduru Oya had been less than 3,000 nuts.
- (iii) In view of the large percentage of fallen nuts of the following estates it was observed that plucking of the crop had not been done timely.

Genetics Resources/Research Centre -----	Percentage of Fallen Coconuts -----
	%
MaduruOya	28
Walpita	22
Ambakele	20
Dunkannawa	18

#### 2.4 Management Inefficiencies -----

(a) The Board had failed up to the date of this report to recover a sum exceeding Rs.18 million recoverable from 8 foreign scholarship recipients who had not served the compulsory service period from the respective officers or the sureties.

#### (b) Inefficiencies in the Purchase of Fertilizer and Fertilizer Application -----

The Board had failed even up to 15 October 2010 to purchase 275,000 Kilogrammes of fertilizer needed in respect of the year 2010 for the 74,722 bearing coconut trees of lands 1,772 acres in extent belonging to 04 Genetics Resources Centres and 06 Research Centres of the Board.

The following matters were observed at the further examination carried out in this connection.

- (i) According to Section 4.2.3 of the Procurement Manual, the reasonable period allowed from the scrutiny of the bids to the award of bids (for procurements between Rs. 05 million to Rs.25 million) is 10 weeks while the Board had taken 25 weeks for the process. The Chairman informed that it was due to the delay in the appointment of the Departmental Procurement Committee.
- (ii) As there was a delay in the purchase of fertilizer by the Board in the year 2008 fertilizer had not been applied in that year while it had not been able to apply fertilizer properly in the year 2010 due to the same reason.
- (iii) Nevertheless, a stock of 334,747 Kilogrammes of fertilizer valued at Rs. 13 million which exceeded the fertilizer requirement for the year 2010 remained as at 01 January 2010 in stock in the stores of the Board.

The performance relating to the application of fertilizer in the year 2010 had been as follows.

Genetics Resources/Research Centre	Number of existing Trees		Number of Coconut Trees Applied with Fertilizer		Percentage of applied with fertilizer	
	Bearing Trees	Un Matured Trees	Bearing Trees	Un Matured Trees	Bearing Trees	Un Matured Trees
Bandirippuwa	11,500	1,943	10,560	1,943	91	100
Pallama	9,117	5,752	3,021	5,697	63	99
Pottukulama	10,393	1,035	7,517	-	72	-
Ambakele	17,148	2,064	8,243	1,505	48	73
Ratmalgara	12,387	590	5,986	302	48	51
Walpita	1,357	480	600	480	44	100
Makandura	5,200	-	3,563	-	69	-
MaduruOya	6,853	946	6,853	347	100	37
Dunkannawa	767	527	-	460	-	87
Middeniya	-	2,926	-	2,926	-	100
Total	<u>74,722</u>	<u>16,263</u>	<u>46,343</u>	<u>13,660</u>	<u>62</u>	<u>84</u>

- (iv) Out of the 74,722 coconut trees maintained by the Board fertilizer had been applied only to 46,343 coconut trees and that represented 62 per cent.
- (v) Even though fertilizer had been applied at an overall percentage of 62, the application of fertilizer in the Ambakale, Ratmalagara and Walpita Estates had been only 48 per cent and 44 per cent respectively.
- (vi) Fertilizer had not been applied in the year 2010 to the 767 bearing coconut trees of the Dunkannawa Research Centre.

## 2.5 Corporate Plan

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The Corporate Plan prepared for the years 2008 to 2012 had not been updated as a rolling plan in terms of this Public Enterprises Circular No. PED/12 of 02 June 2003. Even though a rolling plan for the years 2011 and 2012 had been presented on 21 January 2011, a forecast of the income and expenditure for the year 2012, a had not been furnished.

## 2.6 Human Resources Management

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Vacancies in 121 posts relating to the operating activities of the Board existed up to the year under review.

## 2.7 Budgetary Control

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The actual income and expenditure for the year under review had not been classified according to the Heads of Income and Expenditure appearing in the budget and as such an analysis of the income and expenditure could not be carried out. This matter was referred to in the audit reports for the preceding years as well. As such it was observed that the budget had not been made use of as an effective instrument of management control.

3. Systems and Control

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

- (a) Accounting
- (b) Research
- (c) Estates Management
- (d) Human Resources Management
- (e) Service Agreements of Foreign Scholarship Recipients
- (f) Investments
- (g) Purchase and Use of Fertilizer