

Coconut Development Authority - 2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Coconut Development Authority 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 Development Authority as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following matters were observed.

According to Sri Lanka Accounting Standard No. 3, whenever the income and expenditure are material those should be separately reported in the accounts. Nevertheless, the income and expenditure of the Dunkannawa Project for the year 2010 amounting to Rs. 1,019,133 and Rs. 3,689,851 respectively had been set off against each other and the sum of Rs.2,670,718 had been shown under the Processing Development Expenditure as the total loss on the Project.

1:2:2 Accounting Deficiencies

The following matters were observed.

- (a) Employees salaries amounting to Rs.258,125 and the closing stock amounting to Rs.455,234 of the year 2010 had been omitted in the accounts in the computation of the profit/loss of the Isurusala.

- (b) The advance of Rs. 2 million paid to the Colombo Municipal Council in November 2010 in connection with the Rs.7 million Projects for carrying out repairs to the Waste drainage gully of the building at Narahenpita, had been capitalized under the lands instead of being brought to account as an advance in the financial statements. The balance Rs. 5 million of the Project also had been capitalized under lands though that amount remained unspent.

1:2:3 Accounts Receivable

The following matters were observed.

- (a) According to the agreement on the loan of Rs.2,000,000 granted by the Authority to the Hiriyala Agrarian Company in the year 2006, the loan should be repaid in interest free equal installments within 06 months from the date of granting the loan. Even though a sum of Rs.550,000 had been recovered in two instances, the Board had not taken formal steps even up to 31 December 2010 on the non-settlement of the sum of Rs.1,450,000 in accordance with the agreement.
- (b) A sum of money misappropriated by an officer of the Authority and remaining irrecoverable had been shown continuously from the year 1998 in the accounts of the Millers' Fund. The money and the interest recoverable as at 31 December 2010 amounted to Rs.1,504,373.
- (c) The interest on a loan of Rs.26,715,037 receivable from BCC Lanka Company owned by the Government, up to 31 December 2007 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.12 million representing the interest in respect of the years 2008 to 2010 remaining irrecoverable had been shown under the accounts of the Coconut Oil Price Stabilization Fund. In addition, an interest free loan of Rs.31.55 million had been granted to the BCC Lanka Company in the years 2002 and 2004. Those loans also remained without being received by the Authority.

- (d) A sum of Rs.984,592 receivable from 10 debtors older than one year included in the debtors balance, continued to be shown as debtors without taking action for the recovery of the amount.

1:2:4 Non – compliance with Laws, Rules, Regulations and Management Decisions

A sum of Rs.23,000,000 out of the Fund of the Authority had been invested in fixed deposits by the end of the year under review without obtaining the requisite approval in terms of the Finance Act No.38 of 1971.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Result

According to the financial statements presented, the operations of the Authority during the year under review had resulted in a surplus of Rs.19.04 million as against the deficit of Rs.26.4 million for the preceding year. The improvement of Rs.45.44 million in the financial results as compared with the preceding year had been especially due to the decrease of Rs.50 million in the research and development expenditure.

2:1:2 Analytical Financial Review

- (a) Provision for bad debit amounting to Rs.12 million or 54 per cent had been made for the total sundry debtors of the Authority amounting to Rs.22 million.
- (b) The surplus of the Authority for the year under review represented 2.3 per cent of the total assets.
- (c) The total income of the Authority comprised Treasury grants amounting to 73 per cent, interest income amounting to 13 per cent, operating income amounting to 12 per cent and sundry income amounting to 2 per cent.
- (d) Provision for bad debts had been made on the interest due on the loan granted by the Coconut Oil Price Stabilization Fund to the BCC Company amounting to Rs.4 million brought to account as income for the year.

2:2 Operating Review

2:2:1 Performance

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

(a) Financial Performance

- (i) An audit examination of the targets for the year under review and their achievements revealed that Projects valued at Rs.17.3 million had been completely abandoned. Details appear below.

<u>Activity/Project</u>	<u>Estimated Cost</u> Rs. Millions
<u>1 Finance and Administration Division</u>	
1.1 Repairs to Waste Drainage Gulley	07.0
1.2 Air-conditioning and supply of electricity to Colombo Fort Building	05.0
1.3 Partitioning of Colombo Fort Building	03.0
<u>2. Processing Development Division</u>	
2.1 Introduction of more suitable modern technology for the processing of white edible copra from Coconut Kernels	0.300

2.2 Development of Coconut Oil Industry

Introduction of Consumable Coconut Oil with quantity assurance and goodwill to the Market for the Coconut Oil Industry	1.0
Production and Promotion of Virgin Coconut Oil	1.0

- (ii) The financial performance of 09 Projects allocated with Rs.17.84 million of the Finance and Administration Divisions, Marketing Development and Research Division and the Processing Development Division had been at minimum levels ranging from 2 per cent to 38 per cent.

Activity/Project -----	Financial Performance		
	Estimated Expenditure ----- Rs. Million	Actual Expenditure ----- Rs. Million	Performance ----- %
<u>1. Finance and Administration Division</u>			
1.1 Lands and Land Development	4.5	1.094	24
<u>2. Marketing Development and Research Division</u>			
2.1 Export Capacity Building Projects	1.44	0.468	33
2.2 Survey on Consumer response to Coconut and Substitute Products	1.0	0.021	2
<u>3. Processing Development Division</u>			
3.1 Development of Desiccated Coconut Industry			
3.1.1 Implementation of the Desiccated Coconut Industrial Institute with the assistance of the Quality Assessment and Quality Certification System Laboratory	0.300	0.1	33

3.2 <u>Development of Coconut Industry</u>			
3.2.1 Enhancement of the Traditional Technology for the processing of high quality Copra for the production of high quality Coconut Oil.	0.75	0.219	29
3.3 <u>Development of Coconut Oil Industry</u>			
3.3.1 Updating of Coconut Oil Industries for the enhancement of productivity for implementation with the assistance of the Quality Assurance and Quality Certification System Laboratory	3.0	1.097	36
4. <u>Development of Coir Fibre, Coir based products and Coir-waste based products</u>			
4.1 Coir Fibre Extraction	5.0	1.904	38
4.2 Training on Coir Refuse	0.6	0.089	15
5. Negenahira Navodaya	<u>1.25</u>	<u>0.147</u>	<u>12</u>
Grand Total	<u>17.84</u>	<u>5.12</u>	<u>28</u>

(b) Physical Performance

The following matters were observed

Activity/Project	Targeted Performance	Actual Performance	Difference	Difference in the Performance
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				%
1. Processing Development Division				
1.1 Registration of Industries and Processing Units (Units)	625	409	216	65

1.2 Development of Copra Industry (Units)	10	04	06	40
1.3 Development of Coconut Shell Products (Units)	07	01	06	14
1.4 Coir Refuse Development (Units)	03	01	02	33
1.5 Introduction of a Metal Equipment under the Desiccated Coconut Industry Development (Units)	02	01	01	50
1.6 Negenahira Navodaya and Uthuru Wasanthaya(Programmes)	10	05	05	50
2. Marketing Development and Research Division				
2.1 Inspection of Coconut Producers to establish Production Quantities (Visits)				
	40	0	40	0
2.2 Copra Auctions	48	21	27	44
2.3 Participation in Foreign Markets and Exhibitions	02	01	01	50
2.4 Preparation of an Annual Report of Statistical Data on the Coconut Industry of Sri Lanka in the year 2010	01	Not Stated	01	0

3:2:2 Management Inefficiencies

The following matters were observed in this connection.

- (a) A reconciliation of the Capital and Recurrent Expenditure of the Authority for the several past years revealed an increasing trend in the recurrent expenditure and a decreasing trend in the capital expenditure as compared with the total expenditure.

<u>Year</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	Rs.	Rs.	Rs.	Rs.
Total Capital Expenditure	116,515,259	111,567,888	121,555,671	72,443,819
Total Recurrent Expenditure	101,003,628	115,319,737	120,965,589	118,527,536
Total Expenditure	217,518,857	226,887,625	242,521,260	190,971,355
Capital Expenditure as a Percentage of Total Expenditure	54%	49%	50%	38%
Recurrent Expenditure as a Percentage of Total Expenditure	46%	51%	50%	62%

(b) Loss Incurring Projects

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

<u>Project</u>	<u>Loss</u>	
	<u>2009</u>	<u>2010</u>
	Rs.	Rs.
Dunkannawa	6,094,136	2,670,717
Waharakgoda	209,185	268,869
Dambadeniya	296,869	94,130
Nelliya	<u>184,649</u>	<u>122,966</u>
Total Loss	<u>6,784,839</u>	<u>3,156,682</u>

2.2.3 Operating Inefficiencies

Coconut Oil Price Stabilization Fund

The following observations are made.

- (a) This is a Fund established over 20 years ago for minimizing the adverse effects experienced by the industry from the fluctuation of the price of coconut oil. The main objective of the Fund had been the protection of the industrialist and the consumer by the purchase and storage of coconut oil when the price falls and the release to the market when the price appreciates. Nevertheless, the Fund had been dormant from its inception. Out of the total assets of the Fund amounting to Rs.256 million, a sum of Rs.225 or 87.8 per cent had been invested in Treasury Bills.
- (b) Even though the Fund had been dormant, contrary to the objectives of the Fund, 02 motor vehicles valued at Rs.11 million had been purchased in the year 2009 while a lorry and a van valued at Rs. 9,406,117 had been purchased in the year 2008 by utilizing the money belonging to the Fund. In addition, 15 double cab motor vehicles had also been purchased in the years 1999 and 2000.
- (c) According to the Corporate Plan and the Budget of the Authority for the year under review a sum of Rs.35 million out of this Fund had been allocated for the development of the Coconut Oil Industry under the Uthuru Wasanthaya Programme. Nevertheless, it had not been possible to implement that activity as the requisite approval could not be obtained.

2:2:4 Supply of Resources of the Authority to other Institutions

- (a) According to Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Line Ministries and not allowed the use of resources of Public Enterprises. Contrary to such instructions, 02 motor vehicles had been released for the use of the Ministry.

(b) Contrary to Section 9.4 of the above Public Enterprises Circular 03 Coconut Development Officers and 01 driver recruited by the Authority had been release to the Ministry. The Authority had spent a sum of Rs.200,038 as their salaries and all other allowances.

2:2:5 Meetings of Audit and Management Committees

According to Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Audit and Management Committee should hold 04 meetings in each year. Nevertheless, the Committees of the Authority had held only 02 meetings in the year under review.

2:2:6 Budgetary Control

A reconciliation of the budgeted income and expenditure of the budget prepared by the Authority for the year under review with the actual income and expenditure revealed variances ranging from 10 per cent to 100 per cent in respect of expenditure and variances ranging the 20 per cent to 40 per cent in respect of income, thus indicating that the budget had not been made use of as an effective instrument of management control

3. Systems and Controls

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

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