

Coconut Cultivation Board - 2013

The audit of financial statements of the Coconut Cultivation Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, the statement of changes in net assets and cash flow statement and a summary of significant accounting policies and other explanatory notes 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 43 of the Coconut Development Act, No.46 of 1971 . My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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-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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 the 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Coconut Cultivation Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounts Receivable

Even though a sum of Rs.149,640 had been granted as an advance to a Corporation in the year 2005 to repair a Jeep, the said Corporation had not repaired the relevant Jeep. However, the said advance had been shown further in the Advances Account without being recovered.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.71,772,762 as against the deficit of Rs.2,207,368 for the preceding year. Accordingly, the increase of the Cess Grant by a sum of Rs.174 million had been the main reason for the improvement of Rs. 73,980,130 in the financial results in the year under review as compared with the preceding year.

3.2 Analytical Financial Review

- (a) The operating result of the Model Coconut Gardens for the year under review amounted to a net profit of Rs.71,337,032 as compared with the corresponding net profit of Rs.124,352,387 for the preceding year thus indicating a decrease of Rs.53,015,355 in the profit.
- (b) The Nursery Unit had earned a net profit of Rs.91,224,893 in the year under review as compared with the corresponding net profit of Rs.67,863,491 for the preceding year.
- (c) The operating result of the Fertilizer Unit for the year under review amounted to a net profit of Rs.161,699 as compared with the corresponding net profit of Rs.1,236,868 for the preceding year. The decrease of income from sale of fertilizers by a sum of Rs.1 million than the preceding year had been the main reasons for this.

3.3 Legal Action Instituted Against/ by the Institution

- (a) Seven external individuals had filed 08 cases in the Courts against the Board claiming compensation totaling Rs.13,664,405.

- (b) The Board had filed 04 cases in the Courts against 04 external institutions and individuals claiming compensation totaling Rs.2,807,891.

4. Operating Review

4.1 Performance

The Coconut Cultivation Board consists of 05 Units such as the Extension and Development Unit, Model Coconut Gardens and Nursery Development Unit, Planning Unit, Administration and Human Resources Management Unit and Financial Management Unit.

The targets and achievements of each activity in the year under review are summarized as follows.

(a) Payment of Subsidies

The Board had implemented several Subsidy Schemes during the year under review and the physical target and the progress of the said schemes at the end of the year had been as follows.

- (i) Out of the subsidy schemes implemented in the year under review, the two subsidy schemes, Urban Home Gardening Programme and Kaprukai Parapurai Programme were planned to be implemented during the last two quarters of the year. The progress of the distribution of the coconut seedlings relevant to the said two programmes had been at a minimum level. Its physical progress had been 20 per cent and 06 per cent respectively.
- (ii) The objective of the rehabilitation of coconut lands was for obtaining a higher production from the existing coconut lands and for such purpose agro-science activities such as reducing soil erosion, conservation of humidity and planting of voids should be carried out. Nevertheless, the supply of coconut seedlings for the planting of voids only had been done in the year under review for the rehabilitation of coconut lands. It was observed in audit that the rehabilitation of coconut lands only by the supply of coconut seedlings had not been adequate.
- (iii) Even though targets had been set for the grant of subsidy for 250 cattle sheds in the year under review, subsidy had been paid only for 128 cattle sheds. As such, its physical progress was 51 per cent.
- (iv) Even though targets had been set for the grant of subsidy for 1000 acres under the construction of pipe borne water system in coconut lands during the year under review, the subsidy had been given only to 510 acres and as such the physical progress was 51 per cent.

(b) Model Coconut Gardens

The Board had managed 12 estates as Model Coconut Gardens during the year under review and the following observations are made in this connection.

- (i) The total coconut crop for the year under review had been 4.59 million nuts and that as compared with the preceding year indicated a deterioration of 38 per cent. The Chairman had indicated that “the main reason for the decrease of crops of the Model Coconut Gardens located in the dry intermediate zone is the climatic condition with high temperature and severe drought.”
- (ii) Even though a minimum crop of 4,500 – 5000 coconuts could be obtained annually from 01 acre of coconut cultivation lands, as a whole, under normal conditions out of the Model Coconut Gardens of the Board, except the Mahayaya Coconut Garden, the crop of all other model gardens had failed to reach even that average level.
- (iii) Out of the 12 Model Coconut Gardens maintained by the Board, except 04 coconut gardens, the annual crop of other coconut gardens had been less than 50 nuts.
- (iv) The fallen coconuts of 08 Model Coconut Gardens ranged between 30 per cent and 41 per cent.
- (v) Even though the estimated coconut crop of the Model Coconut Gardens as a whole should be 6.57 million nuts, the actual coconut crop was 4.59 million nuts. Accordingly, the variation had been 1.97 million nuts or 30 per cent. It is observed that the preparation of estimates in respect of coconut crops had not been carried out properly due to the existence of such a high variation between the estimated crop and the actual crop of the Model Coconut Gardens.

(c) Estates Management

The following observations are made.

- (i) When entering data into the network information system to investigate the progress of the estate, the Manager of the Estate or his subordinates had entered the relevant data into the system using the password of the Manager. Problems could arise due to non-maintenance of a register with the entries of log in and a system of separate entries of this data in respect of the reliability of the information and the assignment of its responsibilities.
- (ii) Model Coconut Gardens had been divided into separate fields and the portions so divided had been assigned to each Field Officer. Accordingly, the officers should record the tasks carried out in those portions in the Field Books and should be subjected to the supervision of the Manager of the Estate. Nevertheless, the Field Books had not been properly maintained on a

daily basis by the Field Officers and they had not been supervised by the Manager of the Estate.

(d) Classification of Suitability of Lands of Coconut Cultivation

Classification of Suitability of Lands of Coconut Cultivation of the Board had not been carried out and due to this, problems of identifying the techniques that should be followed for a maximum crop and guidance in correct estimation of the coconut crop could not be achieved.

(e) Control of Coconut Maita in Model Coconut Gardens

Apart from inter-recommendations in suppressing coconut maita, predator maita had been introduced by the Coconut Research Institute as a sustainable biological method and the Board had operated 07 Predator Maita Centers. However, the maita damage had mostly affected the increase of half-mature /rotten/ smaller nuts in 12 Model Coconut Gardens.

4.2 Management Inefficiencies

4.2.1 Investment of Funds

The Board had invested sums of Rs.20,000,000 and Rs.24,000,000 in the years 2011 and 2012 respectively in seven day deposits. The sum of Rs.20,000,000 invested in 2011 had been withdrawn in the year under review. The Board had been deprived of an interest income that could be obtained by long term investment due to investment of Rs.44 million for nearly a period of 02 years in short term deposits.

4.3 Matters of Contentious Nature

Despite non-submission of bills with VAT by the firms that constructed the Trincomalee and Pasikuda Officers' Official Quarters, the Board had included a sum of Rs.905,031 as the Value Added Tax to the payments made to this institutions.

4.4 Staff Administration

The approved cadre of the Board had been 925 and the actual cadre had been 580. Vacancies in the posts in tertiary and secondary levels relating to operating activities had been 10 and 283 respectively while 52 posts in the primary level had been vacant.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice 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) Human Resources Management
- (c) Nurseries Management
- (d) Estates Management