

Coconut Research Board - 2013

The audit of financial statements of the Coconut Research 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 equity 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 1000-1810). 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 Research 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 **Sri Lanka Public Sector Accounting Standards**

Standard 01

Income and expenditure should not be set off with each other and brought to account unless permitted by a Standard. However, expenditure of Rs. 1,120,673 against the income of Rs.3,869,548 and the relative expenditure amounting to Rs. 2,896,530 against other income of Rs.11,560,125 of the sales centre of the Board had been set off and the net result had been shown in the statement of financial performance.

2.2.2 **Accounting Deficiencies**

The following observations are made.

- (a) The Board had not taken action to precisely identify the assets built from money received as grants for research activities and to amortize the amount of depreciation of the said assets.
- (b) The value of the biological assets of Dunkannawa and Middeniya Estates for the year under review had not been assessed and the value of Rs. 175,800 assessed in the year 2012 had been entered in the accounts instead.
- (c) The value of the land of the Tabbowa farm with an extent of 05 acres had not been assessed and revealed as an asset in the accounts of the Board.

3. **Financial and Operating Review**

3.1 **Financial Review**

According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.40,702,143 as against the deficit of Rs.59,537,758 for the preceding year thus indicating an improvement of Rs. 100,239,901 in the financial result.

The increase of the income for the year under review by a sum of Rs.117,889,178 as compared with the preceding year had been mainly attributed to this position.

3.2 Analytical Financial Review

The following observations are made.

- (a) Sixty seven per cent of the income earned through operating activities had been spent for operating expenses.
- (b) Sixty per cent and 40 percent of the entire income of the Board had been generated from operating activities and Government grants respectively.

4. Operating Review

4.1 Performance

Even though a special RTPCR machine which can identify the pytoplasma known as the cause for disease of Weligama Leaf Wilt and Leaf Rotting had been purchased for Rs. 6.3 million in the year 2011, no sample tests had been carried out due to unavailability of chemicals for a period of 07 months in the year under review.

4.2 Management Inefficiencies

The following observations are made.

- (a) Release of predator maita to the field had been carried out in the year under review for the control of coconut maita biologically. Twelve breeding laboratories had been established in 07 districts to breed and distribute maita. The following observations are made in this connection.
 - (i) In the production of predator maita, approximately 25 predator maita and necessary food is added into the polypropylene packets at the beginning and kept for a period of 06 weeks. When maita are multiplied up to approximately 5000 in a packet, it is considered as appropriate to release them to the field. These packets should be released within a period of 6-8 days, if it fails, the predator maita in those packets can be used to produce new packets. Even though the date of production should be mentioned in the packets, the packets which are appropriate for release to the field and which could be used in the production of new packets could not be identified due to failure in mentioning the date.
 - (ii) A large number of coconut trees affected by maita had been observed in audit carried out on 10 June 2014 at the Ambakele Gene Resource Center. It was observed that this disease could not be suppressed due to the cost that has to be incurred for keeping predator maita on trees and keeping them once in three months too. As it is intended to follow a mechanical method to keep predator maita packets on coconut trees, the Chairman has replied that this difficulty would be overcome in future.

- (b) No action had been taken to utilize effectively or reimburse the savings of the grants received as domestic and foreign for research activities without utilizing for the said activities. The amount so retained at the end of the year under review amounted to Rs.6,897,514.

4.3 Personnel Administration

The following observations are made.

- (a) The approved cadre and the actual cadre of the Board had been 390 and 299 respectively. The posts of senior, tertiary and secondary levels relating to operating activities had been 09, 20 and 47 respectively and 22 posts of primary level had been vacant. The posts of 07 officers had approved as personal to them and abolished at their resignation from the service.
- (b) Even though the Department of Management Services had approved a post of Deputy Director (Administration) and a post of Senior Accountant in the year 2011, those post had been vacant up to 30 May 2014.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The accounting deficiencies amounting to Rs.10,089,000 revealed at the examination of the financial statements presented on 05 March 2013 were brought to the notice of the Chairman of the Board. The financial statements amended by rectification of those deficiencies were presented again on 26 December 2013.

6. Systems and Controls

Deficiencies in systems and controls 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) Preservation of Crops