

## **Coconut Cultivation Board - 2014**

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The audit of the Financial statements of Coconut Cultivation Board for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 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 the Financial Statements**

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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**

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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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the 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 judgement, 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 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.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Coconut Cultivation Board as at 31 December 2014 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) The stock of fertilizer valued at Rs.123,683 that remained in the nurseries of the Board as at the end of the year under review had been omitted at the valuation of the closing stocks.
- (b) Although fully depreciated assets had further been used for the activities of the Board, action had not been taken to account it as to show its fair value.
- (c) Instead of deducting the payment of audit charges amounting to Rs.251,556, made in the year under review in respect of the year 2012 from the relevant Provisions, it had been brought to account as audit charges of the year under review and accordingly audit charges had been overstated by that amount.
- (d) Telephone expenses had been overstated by Rs.684,460 and stationery account had been understated by equal amount due to accounting error occurred in copying them to the Ledger.
- (e) Since action had not been taken to reconcile monthly the Current Accounts maintained for 12 Model Coconut Gardens belonging to the Board, total of 05 debit balances of 05 Coconut Gardens amounting to Rs. 18,261,799 and total of 07 credit balances of 07 Coconut Gardens amounting to Rs.23,930,460 at the end of the year under review. Further, the unreconciled credit balance as at the end of the year under review in the Current Account maintained for nurseries amounted to Rs. 1,116,656.
- (f) Work-in-progress Account and the Creditors Account related to the construction of Regional Office at Kurunegala had been overstated by Rs.319,213.
- (g) Even though the provision for gratuity for the year under review for the employees in nurseries had been calculated correctly, it had been understated in the accounts by Rs. 2,000,000.
- (h) In calculating the depreciations for property, plant and equipment of the Model Coconut Gardens, depreciation had been calculated on the initial balance of

Rs.39,101,995, the value of the property, plant and equipment brought forward for each Model Coconut Garden instead of taking into consideration the dates of purchasing the other Assets exclusive of the Assets purchased in the year under review.

- (i) Instead of showing a sum of Rs. 454,725, over-recovered for the payment of telephone bills and mobile phones provided to the officers and employees by the Board, as liabilities it had been shown as Telephone Income.

### **2.2.2 Unexplained differences**

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- (a) Even though the value of the total number of Coconut seedlings issued under Divineguma Programme in the year under review amounted to Rs.171,471,800, the cost shown under the development programmes in financial statements amounted to Rs.169,036,725. Thus a difference of a sum of Rs.2,435,075 was observed.
- (b) Since the bills payable at the end of the year under review had not been furnished, cash payable for Kapthurupaya 11 Stage Ampara and construction of official quarters of officers, Trincomalee had been brought to account taking into consideration the situations that prevailed in January and February in the year 2015.

### **2.3 Transactions not supported by appropriate authority**

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The following observations are made.

- (a) It was observed in the audit that a sum of Rs. 16,710,389 had been paid as allowance equal to the monthly wage of two labourers for Senior Executive Officers and Estate Managers of the Head Office and an allowance equal to the monthly wage of a labourer for Junior Executive Officers of the Estate Management Service and Assistant General Managers of the Head Office and Assistant Estate Managers during the period from 01 November 2011 to 31 December 2014 without an approval from the Treasury irrespective of the paragraph No. 9.8.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003. Further, it was observed at the audit that this allowance had been obtained by the Estate Managers and Assistant Estate Managers of the Model Coconut Gardens and two Checkroll labourers of such Model Coconut Gardens had been engaged in the service of their official quarters.
- (b) A sum of Rs. 620,000 from Rs. 5 million granted by the Ministry of Coconut Development and Janatha Estate Development for the development of Dakshina Lanka Coconut Development Training Centre under the Programme of Controlling the Coconut Leaf wilt disease and Leaf Rotting disease at Weligama had been spent to purchase stamps irrespective of the relevant objective and handed over the stamps to the line Ministry.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year under review had been a surplus of Rs. 34,890,412 as compared with the corresponding surplus of

Rs.71,772,762 for the preceding year thus indicating a deterioration of Rs. 36,882,350 in the financial result for the year under review as compared with the preceding year. The increase of expenditure for Development Programmes and operating expenses by Rs. 118 million over the increase of total income by Rs. 82 million had been mainly attributed to this deterioration.

### **3.2 Analytical Financial Review**

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The following observations are made.

- (a) Operating result of the Model Coconut Gardens in the year under review had been a net profit of Rs. 99,791,389 and that as compared with the net profit of Rs.71,337,032 for the preceding year indicated an increase of profit by Rs. 28,454,357.
- (b) Net profit of Rs. 32,826,653 had been earned by the Nursery Unit in the year under review and the corresponding net profit for the preceding year amounted to Rs. 91,244,893.

### **3.3 Legal Cases instituted by the Board or against the Board**

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Eight cases had been filed in Courts against the Board by 10 external persons claiming compensation totalling Rs. 11,000,000 and the Board had filed 03 cases against 03 individuals and external Institutions claiming compensation totalling Rs.2,174,915.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Subsidy Payment**

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The following observations are made.

- (a) There was no similarity between the Financial Statements of the Board and the financial information provided by the Planning Division on the subsidy programmes implemented in the year under review and the difference amounted to Rs.4,274,348.
- (b) The Board had implemented several subsidy programmes during the year under review and the physical targets and the progress of the subsidy programmes as at the end of the year are summarized below.
  - (i) Even though targets had been set for distribution of 160,000 Coconut seedlings under the subsidy programme “Kaprukai, Parapurai”, only 119,717 Coconut seedlings had been distributed. Even though the overall performance amounted to 75 per cent, an examination of the performance of 6 Regional Offices revealed that it had been less than 50 per cent.

- (ii) Even though targets had been set for distribution of 1,802,610 coconut seedlings under the Kapruka Purawara Programme, only 1,785,356 Coconut seedlings had been distributed. Accordingly, the performance amounted to 99 per cent. Nevertheless, an examination of the performance of the Regional Office at Trincomalee revealed that it had been at a minimum level of 23 per cent.
- (iii) Even though targets had been set for distribution of 350,010 coconut seedlings under the Rehabilitation Programme of Coconut Lands, 392,156 Coconut seedlings had been distributed. Accordingly, the performance amounted to 112 per cent. Nevertheless, an examination of the performance of Regional Offices at Polonnaruwa and Jaffna revealed that it had been less than 35 per cent and 49 per cent respectively. Only the distribution of coconut seedlings had been done for planting voids under the Rehabilitation Subsidy of Coconut Lands in the year under review. Any Subsidy had not been granted for reduction of soil erosion and conservation of moisture.
- (iv) Even though targets had been set for distribution of 2,500 coconut seedlings under the Subsidy Programme of Cultivation of Coconut in the lands of places of Religious worship, 8,755 coconut seedlings had been distributed. Accordingly, the performance amounted to 350 per cent. Nevertheless, the examination of the performance of Regional Office at Kuliyaipitiya revealed a minimum level of 40 per cent.

#### **4.1.2 Model Coconut Gardens**

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The Board had managed 12 Estates as Model Coconut Gardens in the year under review and the following observations are made in respect of them.

- (a) Even though minimum total crop of 4,500 -5,000 nuts could be obtained annually from an acre of land under coconut cultivation under normal conditions, the Model Coconut Gardens of the Board except Mahayaya, Pasikuda and Mundalama on the overall could not at least reach the average level.
- (b) The percentage of fallen coconuts in 05 Model Coconut Gardens had been in the range of 30 per cent to 56 per cent.

#### **4.1.3 Estates Management**

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The following observations are made.

- (a) Data had been entered to the network information system, which had been maintained for the investigation of progress of the Estates, by the Estate Manager or his subordinate officers using his password. Since a register to record the access to the network had not been maintained and the unavailability of information to identify the person who entered such data, the reliability of such data and responsibility thereto had been remained uncertain.
- (b) There was no similarity between the information provided through Network Information System, which had been maintained for the investigation of progress of

the Estates related to the crop of coconut and the number of fecund coconut trees in the year under review, and the information provided through the manual system. Such inconsistencies could lead to problems in achieving the objective of reviewing the progress of the Coconut Estate Division daily, weekly, monthly and annually through a formal information system.

- (c) A classification of land suitability for coconut cultivation related to 12 Model Coconut Gardens of the Board had not been carried out. Thus, problem of identifying the strategies to be followed correctly to obtain a maximum crop and inability to obtain guidance to estimate coconut crop correctly had to be experienced.
- (d) Coconut Research Board had introduced a Predatory Mite as a sustainable biological method besides the interim recommendations of controlling Coconut Mites. Coconut Research Institute had maintained seven laboratories of Predatory mites during the year under review. However, attack of mite had mostly effected to increase immature nuts / Coconut with unpleasant taste/ small nuts in the Model Coconut Gardens of the Board.

#### **4.1.4 Production and Distribution of Predatory Mites.**

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The following observations are made.

- (a) Any targets regarding the production and distribution of packets containing predatory mites related to six Predatory mite rearing laboratories commenced prior to the year under review had not been included in the Action Plan.
- (b) The performance of the distribution of packets containing predatory mites of Predatory mite rearing laboratories at Mulativu and Wariyapola in the year under review had been at a minimum level of 43 per cent and 52 per cent respectively as compared with the production.
- (c) Five out of the 7 predatory mite rearing laboratories operated in the year under review had failed to reach even half of their production capacity level.

#### **4.2 Management inefficiencies**

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The following observations are made.

- (a) As differences were observed between the dates of appointments provided by the Human Resource Management Division for the calculation of Gratuity and the dates of appointments used for the calculation by the Accounts Division, it was not possible to be satisfied in audit with regard the accuracy of the provisions for gratuity amounting to Rs. 156,617,588 made for the Head Office as at the end of the year under review.
- (b) A sum of Rs.149,640 had been paid as an advance to a Corporation for the purpose of repairing a Jeep in the year 2005. Even though the repairs valued at Rs. 89,550 had been finalized, the balance amounting to Rs. 60,090 had been shown in the Advance Account further without recovering.

- (c) The Board had incurred an expenditure of Rs. 3,937,932 for maintaining Mayurapura Nursery during the period from January 2011 to the end of the year under review. Even though seed Coconuts had been germinated in the nursery spending a sum of Rs.564,305 included in the above expenditure, it had been unsuccessful as no feasibility study had been carried out. Payment of a sum of Rs.34,000 approximately had been made monthly for two security Guards of this nursery from the year 2011 up to 30 September 2015.

#### **4.3 Uneconomic Transactions**

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The Board of Directors had attached a member of the Board of Directors, together with a motor vehicle and a Driver to the Regional Office, Moneragala from 11 November 2013 to December of the year under review for coordinating activities of observing the Weligama Coconut leaf withering and decaying disease in the Moneragala District and had spent a sum of Rs. 810,828. There was no evidence to establish that the Weligama Disease Committee had reviewed the Reports on the observations presented by him. There was a problem as to how those reports are to be used to control the disease.

#### **4.4 Staff Administration**

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Approved cadre of the Board for the year ended 31 December 2014 had been 925 and the actual cadre as permanent and on contract basis had been 687. Number of vacancies in the posts of Tertiary, Secondary Levels related to operating activities had been 3 and 208 and 27 vacancies in the Primary Level.

#### **5. Systems and Controls**

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Weaknesses in the 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) Human Resource Management
- (b) Nursery Management
- (c) Estates Management
- (d) Subsidy Payments.