

Coconut Research Board - 2014

The audit of financial statements of the Coconut Research 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, the statement of changes in equity and cash flow statement 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 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 the 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 Auditing 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 misstatement 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.

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 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

2.2.1 Sri Lanka Public Sector Accounting Standards

According to Standard 07, a policy had not been introduced in respect of depreciation of library books and periodicals costing Rs.2,750,561 as at the end of the year under review.

2.3 Accounts Receivable

An advance amounting to Rs.1,729,881 paid in the years 2009 and 2010 to a foreign institution to purchase electronic magazines, had not been settled even by the end of the year under review.

3. Financial and Operating Review

3.1 Financial Review

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2014 had been a surplus of Rs.70,491,247 as compared with the corresponding surplus of Rs.40,702,143 for the preceding year, thus indicating an improvement of Rs.29,789,104 representing 73 per cent in the financial result of the year under review as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) Sixty two per cent of the entire income of the Board had been generated from operating activities and 38 per cent had been received as Government grants.
- (b) The income generated from operating activities amounted to Rs.298,339,973 and it covered only 73 per cent out of the entire operating expenditure amounting to Rs.407,510,726.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

(a) Coconut Crop

The Board had maintained 04 Genetic Resources Centres and 06 Research Centres in the year under review. The following matters were revealed at the analytical review of the coconut crop of those estates.

Genetic Resources / Research Centre	Estimated Crop (Nuts)		Actual Crop (Nuts)		Variance between the Estimated Crop and the Actual Crop-2014		Variance of the Actual Crop as compared with the preceding year	
	2014	2013	2014	2013	Nuts	Percentage	Nuts	Percentage
Bandirippuwa	710,000	700,000	792,279	748,461	82,279	10	43,818	6
Pallama	465,000	544,000	630,840	346,817	165,840	26	284,023	82
Pottukulama	740,000	735,000	747,838	567,278	7,838	1	180,560	32
Ambakele	1,290,000	1,300,000	1,424,155	739,425	134,155	9	684,730	93
Rathmalagara	665,000	650,000	676,144	502,270	11,144	2	173,874	35
Walpita	92,000	80,000	107,963	122,620	15,963	15	-14,657	-12
Makandura	490,000	400,000	428,920	438,208	-61,080	-14	-9,288	-2
Maduruoya	610,000	577,060	776,226	656,600	166,226	21	119,626	18
Dunkannawa	40,500	32,328	51,248	53,007	10,748	21	-1,759	-3
Middeniya	50,000	--	83,050	53,457	33,050	40	29,593	55
Total	5,152,500	5,018,388	5,718,663	4,228,143	566,163		1,490,520	

- (i) The coconut yield of the Walpita Centre had decreased by 12 per cent in the year under review as compared with the preceding year and senility of the coconut plantation and removal of a large number of trees of the old coconut plantation which hinder the under-planting, had attributed to this decrease. At present, the age of this plantation is 66 years and the general lifespan of a coconut tree is 60 years. Practicing of coconut seedlings as an under-planting had been delayed unusually and it was observed in audit that the age of the under-planting is 1 to 3 years at present.

- (ii) The actual yield of the Makandura Centre in the year under review had decreased by 14 per cent as compared with the estimated yield and thinning of shoot had attributed to the decline in yield of about 500 trees. However, as a remedy to this problem, it was observed in audit that the plantation of “Tall x Dwarf Hybrid Coconut” had been commenced before 3 years instead of these trees.

(b) Crop Per Acre and Average Annual Crop Per Tree

The information on the coconut crop per acre of 04 Genetic Centres and 06 Research Centres in the year under review is given below.

Genetic Resources / Research Centre	Extent of Lands with bearing Palms (Acres)	Number of bearing Palms	Fallen coconuts (Nuts)	Total Annual Crop (Nuts)	Annual Average Crop per Palm (Nuts)	Crop per Acre (Nuts)	Percentage of Fallen Coconuts
Bandirippuwa	287	10,706	96,699	792,279	74	2,761	12
Pallama	499	14,246	54,907	630,840	44	1,264	9
Pottukulama	210	9,409	175,560	747,838	79	3,561	23
Ambakele	329	16,917	287,802	1,424,155	84	4,329	20
Rathmalagara	226	10,598	108,679	676,144	64	2,992	16
Walpita	42	1,684	38,507	107,963	64	2,571	36
Makandura	126	4,200	111,082	428,920	102	3,404	26
Maduruoya	195	7,546	241,976	776,226	103	3,981	31
Dunkannawa	23	862	10,310	51,248	59	2,228	20
Middeniya	72	1,281	1,240	83,050	65	1,153	1
Total	2,009	77,449	1,126,762	5,718,663			

- (i) Even though the average coconut crop per acre should be between 4,500 to 5,000 nuts approximately, the coconut crop of all the estates of the Research Board had been below 4,500 nuts which is the minimum level of the coconut crop and delay in commencing the under-planting of coconut seedlings had attributed to this decrease.

- (ii) The percentage of fallen coconuts of 6 Genetic Resources /Research Centres maintained by the Board ranged between 20 per cent and 36 per cent. As such, it was observed that action had not been taken to pluck the crop on time.
- (c) There had been no similarity between information in respect of total coconut yield and the number of bearing palms for the year under review made available by the network information system for the investigation of the progress of the estates and information made available manually. According to the manual system, the coconut yield of the 10 estates and a model farm belonging to the Board amounted to 5,718,663 for the year under review and according to the network system it had been 5,742,359, thus observing a difference of 35,605 coconut nuts. Moreover, according to the manual system, the number of bearing palms amounted to 77,449 and according to the network information system, it had been 77,280, thus observing a difference of 3,531 coconut palms. A problem in fulfilling the objective of reviewing the progress of the coconut estates sector daily, weekly, monthly and annually through a proper information system could have arisen.
- (d) Action had not been taken to recover a sum of Rs.15,825,789 recoverable from 07 foreign scholarship holders who had not completed the compulsory service period after studying, from respective officers or the guarantors.
- (e) The coconut maita damage had mostly affected the decrease in size of coconut nuts, change the shape and fall of immature nuts in Gene Resources/Research Centres and the Research Board had presented inter-recommendations as remedies therefore. Further, the Research Board had introduced the predator maita as a sustainable biological method to control this maita. Accordingly, the Research Board had commenced and maintained three predator maita centres. The number of coconut nuts small in size affected by coconut maita had taken a high value of 236,482 in the year under review relating to 10 model coconut gardens maintained by the Board under the circumstance in which inter-recommendations and the biological method named predator maita are implemented to control the maita damage.
- (f) A land had been identified from Punarin in Kilinochchi District on the requirement of an area where a silviculture exists, for the production of hybrid seednuts and the objective of this was the implementation of a garden for seednuts with a view to obtaining high quality seednuts with different coconut varieties suitable for the area for the development of coconut cultivation in Northern Province. According to the Letter dated 20 August 2012 addressed to the District Secretary of Kilinochchi by the Director General of Forest Conservation with a copy to the Director of the Coconut Research Board referred to this matter, it had been notified that this land could not be given for the relevant purpose as this land is located at Maduwilnadu Reserve. Under this circumstance, the Board had incurred an expenditure amounting to Rs.2,118,510 to purchase tractors and furniture for the above project in the year under review. Moreover, sums of Rs.4,110,400 and Rs.1,460,140 had been paid as advances to the Sri Lanka Army and external institutions respectively to purchase tractors to clear the above land.
- (g) Objectives intended to fulfill by using computerized accounting software through the accounting software which is used by the Board could not be fulfilled and it was observed that use of passwords and maintenance of back up are not carried out properly. Entering data by using the software is not carried out daily and it had not been apparent that reports obtained through that software had been certified by an officer who prepared or checked them.

4.4 Personnel Administration

The approved cadre and the actual cadre of the Board had been 391 and 296 respectively. The posts of senior, tertiary and secondary levels relating to operating activities had been 09, 19 and 45 respectively and 22 posts of primary level had been vacant.

5. Accountability and Good Governance

5.1 Budgetary Control

Variance between the budgeted and the actual values of eight items shown in the financial statements as at the end of the year under review amounted to Rs.255,818,371, thus indicating that the budget had not been made use of as an effective instrument of financial control.

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) Conservation of Crops