

Coconut Cultivation Board - 2015

The audit of the Financial statements of Coconut Cultivation Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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

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 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 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 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

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

2. Financial Statements

2.1 Qualified Opinion

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 2015 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

The following non-compliances with Sri Lanka Public Sector Accounting Standards were observed in audit.

(a) Sri Lanka Public Sector Accounting Standard 03

If an impact of a difference of accounting estimate affects in the period such difference existed or to the future periods, it should be identified in the same period and included in the income statement and identified in the future, Nevertheless the board had adjusted the differences amounting to Rs.30,501,342 identified in the accounting estimates to general fund.

(b) Sri Lanka Public Sector Accounting Standard 07

Even though the fixed assets costing Rs.187,702,952 had been fully depreciated due to not reviewing the effective life annually for the non-current assets in terms of Sri Lanka Public Sector Accounting Standard 07, they had been further in use. Accordingly action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounts Receivable and Payable

The following observations are made.

(a) Even though a sum of Rs.5,979,174 incurred in the years 2013 and 2014 through regional offices in three districts under Weligama leaf wilting disease project should be reimbursed from the Ministry, the Board had failed to reimburse such amount even by 31 December 2015.

(b) A sum of Rs.434,625 recoverable for coconut and eggs provided on credit basis through the Mahayaya Model Coconut Garden had not been recovered even by 31 December in the year under review.

2.2.3 Lack of Evidence for Audit

According to the financial statements presented for the year under review, investment certificates, confirmations of balances and age analysis had not been presented to confirm the investments totalling Rs.308,843,920, creditors balances totalling Rs.30,660,114 and trade and other debtor balances totalling Rs.64,464,577.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following instances of non-compliance with Laws, Rules and Regulations were observed.

Reference to Laws, Rules, and Regulations etc.	Non-compliances
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(a) Section 12.2.3 of Chapter vii of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Even though the post which entitled to receive a salary for acting should be a full time post for which it was intended to appoint a full time officer in due course, 16 officers had been appointed on acting basis and their acting period had ranged from 02 months to 104 months.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 104,156	Action had not been taken in terms of financial regulations in respect of a sum of Rs.23,013 misplaced on 10 January 2015 at Mahayaya Kapthurupaya sales outlet and the shortage of a sum of Rs.14,250 detected at the physical verification of cash carried out on 12 November 2015 at the office related to Mahayaya Model Coconut Garden.
(ii) Financial Regulation 137, 138, 245, 257	Payments had been made without the approval of the payment vouchers of capital expenditure totalling Rs.84,078,945 and without certification of the payment vouchers amounting to Rs.666,450.
(iii) Financial Regulation 371(2)	Even though the advances granted should be settled immediately after the conclusion of the purpose, advances totalling Rs.4,986,697 given during the year under review had not been settled even by 31 December in the year under review.
(c) Public Enterprises Circular No. PED/12 dated 02 June 2003	
Paragraph 9.12	The Board had commenced a medical assistance fund since July 2010 on a decision of the Board of Directors without

obtaining the approval of the General Treasury and medical assistance amounting to Rs.14,840,530 had been paid in the year under review alone.

2.5 Transactions not supported by adequate authority

The following observations are made.

- (a) The Board had opened a current account in the name of Kapruka Fund with an initial deposit of Rs.100,000 without an approval of the General Treasury and the Coconut Research Institute and the Coconut Development Authority had given Rs.10,000,000 each to this Fund. A sum of Rs.20,100,000 of that Fund had been invested without an approval of the Treasury in the year 2011 and an interest income of Rs.8,563,474 therefor had been received up to 31 December in the year under review.
- (b) An incentive of Rs.3,959,085 had been paid to the employees and personnel of the Estate governing service of the Coconut Cultivation Board for the year 2013 without an approval of the Treasury in the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a deficit of Rs.36,341,560 as against the corresponding surplus of Rs.34,890,412 for the preceding year, thus indicating a deterioration of Rs.71,231,972 in the financial result for the year under review as compared with the preceding year. Non-implementation of Divineguma Programme in the year 2015, the surplus of the nursery unit converted to a deficit and the increase of operating expenses by Rs.71,860,106 had mainly attributed to the above deterioration.

In analyzing the financial results of the preceding four years and the year under review, even though a financial surplus had prevailed in the years 2011, 2013 and 2014 the financial deficit had existed in the years 2012 and 2015. In considering the employees' remunerations, Government taxes and depreciations on non-current assets, the contribution of the Board had gradually increased from the year 2012 to 2014 but it had decreased in the year 2015.

3.2 Legal Cases instituted against the Board or by the Board

Seven cases had been filed in Courts against the Board by 14 persons, claiming compensation totalling Rs.10,100,000 and the Board had filed a case against external Institutions and two individuals, claiming compensation totalling Rs.250,100.

4. Operating Review

4.1 Performance

The objectives according to the Coconut Development Act, No.46 of 1971 are as below.

- The development and assistance in the development of the productivity of land where coconut plantations can be done, the cultivation and assistance in and promotion and regularization of the cultivation of land with coconut, the selection of land in coconut plantations suitable for inter-planting with other crops (including pasture) and the promotion, direction, operating and assistance in the carrying out of inter –planting programmes on such lands.
- The promotion and regularization, assistance to, and engagement in, animal husbandry on land in coconut plantations, the specification, popularization, promotion and direction of proper cultivation practices in respect of the growing of coconut and other crops in coconut plantation, the manufacture, and assistance in and promotion and regulation of the manufacture, of coconut products. The improvement of new techniques in the processing of coconut products.
- The improvement and direction of the modernization, and assistance in increasing the efficiency of establishments manufacturing coconut products. The training of advisory and extension workers, The guiding and advising of the coconut industry on all matters of a technical nature, the promotion of co-operative and collective forms of management and ownership of coconut plantations and of establishments manufacturing or trading in coconut products.

The following observations are made in fulfilling the above objectives.

- (a) According to the revised Action Plan, it was observed that the progress in 14 activities had remained as low as 0 per cent to 60 per cent.

(b) Examination of Model Coconut Gardens

 The Board had 12 Model Coconut Gardens and the following observations were made in the examination of the progress of such Model Coconut Gardens in the year 2015.

Model Coconut Gardens	Extent of lands (in acres)	Acres suitable for coconut cultivation	Acres cultivated coconut	Percentage of Acres cultivated coconut out of acres which can be cultivated	No. of coconut trees bear fruit	Annual crop (No. of fruits)	Fruit s per tree per annum	crop in number of fruits per Acre
Nagansola	406	347	321	93	13,911	1,166,179	84	5,365
Randeniya	360	310	310	100	12,171	646,136	53	3,398
Lenawa	483	420	356	85	14,022	717,737	51	3,276
Bopitiya	142	127	104	82	4,632	274,128	59	3,788
Gurtland	405	386	386	100	13,874	724,218	52	3,341
Korei	469	374	238	64	6,072	276,134	45	2,911

Paikuda	238	172	172	100	4,000	136,423	34	2,183
Mahayaya	331	290	290	100	11,950	702,060	59	3,760
Desiweli	306	295	295	100	12,052	891,273	74	4,733
Mundalama	14	14	14	100	734	47,257	64	4,121
Kohombana	154	113	104	92	4,492	238,144	53	3,393
Palai	634	583	120	21	5,507	96,249	17	1,119
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Total	3,942	3,431	2,710		103,417	5,915,938		
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The following observations are made in that respect.

- (i) In examining the extent of lands cultivated out of the suitable lands for coconut cultivation related to 12 Model coconut gardens of the Board, a low percentage such as 64 per cent and 21 per cent of the extent of cultivated lands (Acres) in Korei and Palai model coconut gardens were shown.
- (ii) Coconut Research Institute had not obtained a soil analysis on the Model Coconut Gardens of the Board so far. According to the rough guides map data of the Coconut Research Institute, Mahayaya, Bopitiya, Mundalama, Paikuda and Lenawa Estates consist of soil types belong to the soil categories S₂ and S₃ which were suitable for coconut cultivation. Therefore they were in the capacity of obtaining at least over 4,000 coconuts per Acre per year. Three out of 12 Model Coconut Gardens of the Board had reached such level and the remaining 09 Gardens had been in the range of 1,119 to 3,788 coconuts per Acre per year.
- (iii) Coconut Research Board has 12 Model Coconut Gardens and total extent of lands is 3,942 Acres. Even though there were 103,417 coconut trees, only 12,280 higher coconut trees had been selected for obtaining seed coconuts in the year under review. The Coconut Cultivation Board had obtained the maximum seed coconuts of 34 per cent in the preceding 5 seasons and 17 per cent seed coconuts had been obtained in the last two seasons. Therefore number of seed coconuts obtained from the Coconut Cultivation Board had gradually decreased in the preceding 5 seasons.
- (iv) In examining the selection age analysis of 69,367 plants of the higher plant reserve finally selected in 70 Estates by the Coconut Research Institute, 35,700 plants selected prior to over 15 years in 31 Estates, 14,282 plants selected between the period from 10 to 15 years and only 9 per cent higher plants less than 5 years had only been selected. Accordingly, steps had not been taken to examine the current position of the higher plants and to update the higher plant reserve up to 31 December in the year under review. Further, it was unable to satisfy in audit on the possibility of obtaining necessary, good seed coconuts from Model Coconut Gardens from where many seed coconuts were obtained without studying whether the criteria which were based on to make selection of higher plants earlier for years were available at present.
- (v) Weligama nursery was closed in the year 2009 due to Weligama Coconut leaf wilting disease and subsequently such nursery had been used as a nursery to produce Green Kundira coconut variety tolerated to Weligama disease. Nevertheless such coconut varieties had not been produced in the years 2014 and 2015.

4.2 Management activities

The following observations are made.

- (a) Despite the Ministry had granted approval to pay by adding Rs.6 to the maximum price decided at the Coconut Auction for Public Institutions in obtaining seed coconuts only for Maha season in the year 2012, the General Manager of the Board had instructed on that basis to add Rs.6 to the maximum price decided at the auction (with private estates) and to pay for the seed coconuts since the Yala season of the year 2013. Accordingly, as a result of paying excessive amount for seed coconuts without a proper authority, a sum of Rs.104,510,862 had been overpaid during the preceding 5 seasons by the Board.
- (b) Even though about 14,873 coconut trees existed in the extent of 1,028 Acres of Mundalama, Bopitiya, Pasikuda and Palai Model Coconut Gardens, the Board had not taken action to select higher plants hitherto.
- (c) Even though the seed coconuts should be transported without delay to the respective nursery, it was observed that a period from 28 to 70 days had been elapsed for transporting 195,845 coconuts at 10 instances in the Maha season in the year 2015 and it had been problematic in audit as to whether selected seed coconuts were transported due to long delays for the transport of seed coconut.
- (d) Even though the Treasury had provided a sum of Rs.456,550,000 to incur capital expenditure for the year under review, a sum of Rs.151,494,567 had been spent for recurrent expenditure.
- (e) Even though a service of a computer software system had been obtained related to salaries and ledger accounts from a private Company which was a Sri Lankan Agency of an Australian Company, action had been taken to connect directly with the Australian company without entering into an agreement as the Agency had stopped providing its services since 24 June 2015. A payment amounting to Rs.123,572 had been made to the Agency for the preceding year for obtaining service and a sum of Rs.292,745 had been paid to the Australian Accompany in the year under review therefor. In addition, a sum of Rs.153,648 had been paid to the Australian company as members' fees.
- (f) Two thousand two hundred and nine plucked coconut and 21,660 unsuccessful and rejected coconuts had existed in Kirindiwela Nursery in the year under review and as early action had not been taken to auction them, coconut had germinated and unsuccessful and rejected coconut had been destroying. Thereby the Board had deprived of an income which had to be earned.
- (g) According to the Investigation report of March in the year 2015 in respect of stock of vehicle maintenance equipment discarded from the Tube well Unit stored temporarily at Mahayaya Model Coconut Garden on 30 September 2014, 17 items had misplaced and action had not been taken to identify the responsible parties by conducting an investigation in that connection and to recover the related value even up to 30 June 2016, the date of the Audit.

- (h) Even though 60,080 seed coconuts had been obtained from 13 estates of the landlords of Gampaha District for community nurseries of Gampaha Regional Office related to Yala and Maha Seasons in the year 2015, as the coconut Research Institute had not made a selection of higher plants for obtaining seed coconut in those lands it cannot be satisfied in audit on the productivity of seed coconuts.
- (i) Subsidies totalling Rs.2,005,000 and Rs.735,000 had been given for the period from the year 2012 to 2014 and in the year under review respectively for the construction of 82 cattle pounds without establishing the legal ownership of lands of applicants requested for cattle pounds construction subsidies. There was no contractual condition on the minimum period to be maintained such cattle pounds after obtaining the subsidies for cattle pounds and evidence to prove whether a follow up action had been taken on subsidies so granted was not made available for audit.

4.3 Personnel Administration

The following observations are made.

- (a) Five officers had been recruited for 05 posts only personal to them outside the approved cadre.
- (b) Working Director outside the approved Cadre of the Department of Management Services had been appointed with effect from March 2015 even the Statutory provisions had not been made in terms of the Coconut Development Act, No.46 of 1971 and an allowance amounting to Rs.607,312 had been paid therefor.

5. Accountability and Good Governance

5.1 Presentation of financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Accounts should be presented within 60 days after the end of the accounting year, the Board had presented the accounts only on 16 March 2016.

6. Systems and Controls

Weaknesses 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.

fields of Systems and controls

Observations

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| (a) Accounting | Non-maintenance of updated accounts as per Computerized Accounting System and Non-computerization of Accounting of Model Coconut Gardens. |
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| (b) Personnel Administration | Not getting approved the Scheme of Recruitment and Cadre |
| (c) Nursery and Estate Management | Non-enhancement of the efficiency of Nurseries and non-improvement of obtaining seed coconut from Model Coconut Gardens |
| (d) Payments of subsidies | Non-execution of a follow-up process after the payments of subsidies, possibility to occur frauds as all functions were handled by a single officer in providing coconut seedlings, Not taking action with a transparency in the issuance of plants. |