

Coconut Development Authority - 2015

The audit of financial statements of the Coconut Development Authority 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 equity 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 the Coconut Development Act, No 46 of 1971. My comments and observations which I consider should be published with the Annual Report of the Authority 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 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 Authority'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 Authority'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 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 Coconut Development Authority 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

Sri Lanka Public Sector Accounting Standard 07

The following observations are made.

- (a.) When the items of Property, Plant and Equipment are revalued, the entire class of Property, Plant and Equipment to which the item belongs, should be revalued. However, out of the lands and buildings valued at Rs. 226,305,369 and Rs. 237,863,651 respectively, only the lands and buildings located at the Duke Street, Fort had been revalued and brought to account in the year 2012. As the entire class of assets had not been revalued, it was observed in Audit that the value of lands and buildings shown in the financial statements had not depicted the actual value.
- (b.) As the useful life time of non-current assets had not been reviewed annually, the fully depreciated motor vehicles costing Rs. 60,430,940 had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a.) The Authority had not taken action to recover a loan balance of Rs. 161,024 from an officer who had vacated the post.
- (b.) Loans totalling Rs. 59,715,037 given to 02 companies had remained outstanding since the year 2009.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year under review had been a surplus of Rs.169,146,980 as compared with the corresponding surplus of Rs.15,457,175 for the preceding year, thus indicating an improvement of Rs. 153,689,805 in the financial result of the year under review as

compared with that of the preceding year. The increase in the other income by a sum of Rs. 142,814,121 due to the revision of the fees relating to the export of fresh coconuts had mainly attributed to the said improvement.

In analyzing the financial results of the year under review and 04 preceding years, the financial result of the years 2011 and 2012 had resulted in a deterioration, whereas an improvement had been resulted in from the year 2013 up to the year under review. However, by considering the employee remuneration, depreciation on the non-current assets, and Government taxes, the contribution of the Authority had gradually increased from the year 2011 up to 2013, but it had slightly decreased in the year 2014. Nevertheless, the contribution had again improved by 178 per cent in the year under review as compared with the year 2014.

3.2 Legal Cases Instituted by or against the Authority

The Authority had filed 02 cases in Courts against an external institution and a person to recover sums totalling Rs. 1,450,000.

4. Operating Review

4.1 Performance

The functions of the Authority in terms of Coconut Development Act, No. 46 of 1971, are given below.

- To assist the Minister in the formulation of policy and in on determinations of development priorities in respect of the coconut industry and the economics utilization of land in and for coconut plantation,
- To formulate or assist in the formulation of projects and schemes in accordance with the development priorities so determination Co-ordination of the activities of the Boards established by the Minister under this Act. Approval of the annual budget of the Boards and to provide them with funds. Advise and assist the Bounds in the formulation, implementation and maintenance of proper management according systems.
- To evaluate of the progress of the Board in relating to the policy and development priorities determined by the Minister. To enter into Co-ordination with on consent of the Minister, with international Organizations having allied interests and functions.
- To assist functionally and in any other way any person or body of persons engaged in scientific research in respect of any aspect of the coconut industry and its products or the utilisaiion of land in and for coconut plantations and Co-ordinate such research activities.
- To advise the Minister on all matters relating to or affecting the coconut industry, and
- To take all such measures which, in the opinion of the Authority, are necessary for the development and verification of the coconut industry.

The following observations are made in connection with the execution of the above functions.

- (a.) Even though 276 estates from both the public and private sectors had registered for the auction of coconuts, 95 per cent of the coconuts Presented for the auction had been from the estates owned by the public sector only. The contribution made by the estates of the private sector to the auction, had decreased.
- (b.) In terms of Section 20(1) of the Act, the Authority had failed to carry out the functions such as, implementation of price schemes on the purchase and sale of products relating to coconuts, formulation and implementation of price stabilization schemes, creation of demand for coconut products by advertising, and conducting scientific research in respect of all aspects including products and sales.

4.2 Management Activities

The following observations are made.

- (a.) Even though a security deposit of Rs. 2,000,000 should be made to the Authority by the exporters in exporting fresh coconut, without making the initial security deposit by a private company, fresh coconuts had been exported during the year under review, and export charges amounting to Rs. 1,020,000 had remained recoverable to the Authority by September 2015. Furthermore, in writing off the export charges, exports should be suspended when the deposit value decreases to 25 per cent. Even though the security deposits of 03 exporters had decreased from 4 per cent to 22 per cent their fresh coconut exports had not been suspended.
- (b.) A service contract valued at Rs. 1,018,100 had been awarded to a private company in January 2014 with the objective of providing its services for many cultivators by conducting the coconut auction online. The project had been scheduled to be implemented by July 2014, but it had not been implemented even by the end of the year under review, and 65 per cent of the contract amount or Rs. 661,765 had been paid.
- (c.) The coconut auction should be conducted by an independent person. However, a broker associated with the auction had conducted the auction. As such it was observed in Audit that the auction had not proceeded with transparency.

4.3 Operating Activities

Seven employees comprising 02 Management Assistants, a Coordinating Officer, 02 Field Assistants, a Driver, and an Office Aide had been assigned to the Divisional Office in Kandy established by the Authority. Even though sums of Rs.1,267,764 and Rs.259,187 had been spent in the year under review as salaries and other recurrent expenditures respectively, not any productive activity had not been carried out in the current year.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a.) Even though the Head Office of the Authority situated at Narahenpita had been shifted to the building of the Authority situated at the Duke Street, Fort due to the need for widening the laboratory test services the office building at *Narahenpita* at which the laboratory test service had been maintained, remained idle from April to 31 December of the year under review.
- (b.) Ten machines valued at Rs. 13,886,542 installed in the laboratory of the Authority, had remained idle for a period of a year.
- (c.) Nineteen rope making machines valued at Rs. 161,500 had been retained at the Dunkannawa Coir Research Center without being used since 20 July 2013 and those machines had remained partly decayed beyond use.
- (d.) As the mobile laboratory vehicle valued at Rs. 22,000,000 purchased in the year 1997 had not been suitable for the relevant purposes, it had remained unused since the year 2011, and the Authority had not taken action in that connection.
- (e.) Equipment of capital nature valued at Rs. 1,320,000 purchased for manufacturing *Tawashi* brushes had remained idle without being used for the intended purpose.

4.5 Uneconomic Transactions

The following observations are made.

- (a.) Although the validity period of 208 vials purchased for 02 idling machines had expired 200 vials valued at Rs. 74,900 had been purchased in the year under review.
- (b.) Five machines used for processing coir had been purchased for Rs. 3,072,000 in the year 2013 for distributing among the industrialists. Installation of those machines required infrastructure such as availability of raw materials and land for relating water. However, 04 machines had been distributed among 04 entrepreneurs in *Monaragala* district where such facilities are not available and the machines had not been made use of. The balance machine had been retained at the Industrial Technology Institute without being distributed even up to 30 June 2016, the date of audit.
- (c.) A stocks control software had been purchased from a private institution by paying a sum of Rs. 100,500. The Engineer of the Authority had informed that similar software could be downloaded from the Internet for free. Action had not been taken to rectify the defects that had arisen in the use of the software though the relevant private institution.

4.6 Identified Losses

Even though on Head Office of the Authority had been shifted to the building at Duke Street, Fort with the objective of widening the laboratory service. As the expected objective had not been achieved. As such a potential rent income of Rs.4,590,000 that could have been obtained in the year under review by leasing out the said building to external parties, had been deprived of.

4.7 Staff Administration

The following observations are made.

- (a.) As executive salary increments had been paid to 02 Executive Officers of the Authority without the formal approval of the Department of Management Services, salaries totalling Rs. 419,073 had been overpaid. Furthermore, despite being informed by the Department of Management Services that salaries should be recovered from an officer, action had not been taken to do so, and the other officer had not fulfilled the basic qualifications at the time of recruitment.
- (b.) Two officers had been recruited for the post of Management Assistant on contract basis and a sum of Rs. 1,408,930 as salaries in the year under review without obtaining the prior approval of the Department of Management Services and the approval for the provision as specified in paragraph 07 of the Public Administration Circular No.25/2014 of 12 November 2014.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

- (a.) Even though a sum of Rs. 20,000,000 had been allocated for laboratory equipment in accordance with the budget estimate of the Authority, only an equipment valued at Rs.156,670 had been purchased in the year under review.
- (b.) The provision of Rs. 2,500,000 made in the budget estimate of the year under review for the renovation of the Head Office of the Authority and the building in Fort, had not been utilized for the relevant purposes.

5.2 Unresolved Audit Paragraphs

The following observations are made.

- (a.) Although the sum of Rs. 2,000,000 given by the Authority to the *Hiriyala Farmers' Company Ltd.* in the year 2006 should have been recovered within a period of 06 months in accordance with the conditions of the agreement, a sum of Rs. 1,450,000 had remained receivable by the Authority even by the end of the year under review.
- (b.) Although the installments and interest receivable in respect of the loan amounting to Rs. 26,715,037 given to a private company in the year 1985 had not been recovered, further loans totalling Rs. 31,600,000 comprising Rs.25,000,000 and Rs.6,600,000 in the years 2002 and 2004 respectively had been granted without interest to the same company. The value of the interest and the loans that remained receivable amounted to Rs. 90,357,909 by the end of the year under review.

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 Authority from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

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| (a) Staff Administration | Making recruitments contrary to legal provisions, and setting erroneous salary steps. |
| (b) Control of Operations | Due to inefficient control of operations, income receivable by the Authority had been deprived of.\ |
| (c) Accounting | Failure to update the accounting system used in stores administration. |
| (d) Debtors and Creditors Control | Confirmation of balances had not been obtained in respect of long-standing receivable and payable loan balances, and action had not been taken either to recover or write off those loan balances. |
| (e) Control of Assets | As the assets had not been efficiently made use of, they remained underutilized and idle. |
| (f) Budgetary Control | Failure to utilize the budgeted funds to achieve the relevant objectives. |