

Coconut Research Institute of Sri Lanka - 2015

The audit of financial statements of the Coconut Research Institute of Sri Lanka 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 the 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 Institute 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 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 Institute'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 Institute'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 Research Institute of Sri Lanka 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

- (i) In view of the failure to review the useful life of the non-current assets annually in terms of the Sri Lanka Public Sector Accounting Standards 07, the fully depreciated fixed assets costing Rs.163,024,641 were being used further. As such action had not been taken for the revision of the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.
- (ii) The Institute had not introduced a policy for the depreciation of the library books and periodicals valued at Rs.2,822,373 and depreciated them.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The value of the land of 05 acres in extent on which the Tabbowa Model Farm is maintained had not been assessed and brought to account.
- (b) Even though fixed assets had been purchased from the foreign aid received amounting to Rs.6,616,827, the amortisation related to those assets had not been adjusted.

2.2.3 Unexplained Differences

Reconciliation of the balance of the Withholding Tax according to the financial statements as at 31 December of the year under review with the relevant register revealed a difference of Rs.417,428.

2.2.4 Accounts Receivable

The following observations are made.

- (a) According to the age analysis of debtors, balances of debtors older than 05 years amounted to Rs.554,737 and the Institute had not taken action for the recovery of those debtors balances.

(b) The Institute had not taken action for the recovery of the security deposits receivable from 14 institutions amounting to Rs.245,650 existing over a number of years and shown under the other current assets in the financial statements.

2.2.5 Lack of Evidence for Audit

The evidence related to the following items in the financial statements indicated against them had not been furnished to audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Security Deposits	187,827	} Letters of Confirmation of Balances
(b) Debtors	11,783,524	
(c) Creditors	5,406,344	

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The annual Board of Survey for the year under review in terms of the Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka had not been carried out and reports furnished to audit in respect of the library books and periodicals valued at Rs.2,822,373.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review amounted to a surplus of Rs.45,519,601 as compared with the corresponding surplus of Rs.70,181,702 for the preceding year, thus indicating a deterioration of the surplus of the year under review, as compared with the preceding year, by a sum of Rs.24,662,101. The increase of expenditure on salaries and wages and employees benefits by a sum of Rs.32,935,808 the increase of the expenditure of the Research Centres by a sum of Rs.6,956,799 and the decrease of other income by a sum of Rs.14,546,456 in the year under review had been the major factors that affected the decrease of the surplus.

In considering of the financial results of several preceding years indicated that the deficit of Rs.7,998,680 for the year 2011 had increased to Rs.59,537,758 by the year 2012 and subsequently converted to a profitable status. The contribution of the Institute in the year 2011 after the adjustment of employees remuneration of the taxes paid to the Government and the depreciation on the fixed assets, amounted to Rs.116,578,448 and that had increased gradually to a contribution of Rs.256,602,876 by the year 2015.

3.2 Legal Action Instituted Against or by the Institute

The Institute had filed 09 cases against 09 external institutions and persons, in the Courts claiming compensation totalling Rs.16,716,899 and an external party had filed a case against the Institute.

4. Operating Review

4.1 Performance

The functions of the Institute according to the Coconut Development Act, No.46 of 1971 are as follows.

- Conducting and furthering of scientific research in respect growth and cultivation of coconut palms, coconut cultivation, inter-plantation of other crops in coconut lands and animal husbandry and prevention and cure diseases and pest.
- The establishment and maintenance of research institutes, experimental stations and nurseries, the conducting and furthering of scientific research in connection with the processing and utilization of coconut products, the establishment of pilot plants for the processing of coconut products and the fabrication of experimental processing equipment.
- The training of advisory and extension workers to assist the coconut industry and guiding and advising of the coconut industry in all matters of a technical nature.

The following observations are made in connection with the achievement of the above objectives.

(a) Coconut Crop

The Coconut Research Institute had maintained 04 Genetic Resource Centres, 06 Research Centres and one Model Farm during the year 2015. The information on the coconut crop of those estates is given below.

Genetic Resources /Research Centre	Estimated Crop (Nuts)		Actual Crop (Nuts)		Variance between Estimated Crop and Actual Crop 2015		Variance in the Crop as compared with Preceding Year	
	2015	2014	2015	2014	Nuts	Percentage	Nuts	Percentage
Bandirippuwa	725,000	710,000	588,206	792,279	(136,794)	(23)	(204,073)	(26)
Ratmalagara	650,000	665,000	616,902	676,144	(33,098)	(5)	(59,242)	(9)
Ambakele	1,300,000	1,290,000	1,611,559	1,424,155	311,559	19	187,404	13
Pallama	570,000	465,000	703,720	630,840	133,720	19	72,880	12
Poththukulama	700,000	740,000	774,367	747,838	74,367	10	26,529	4
Makandura	475,000	490,000	336,042	428,920	(138,958)	(41)	(92,878)	(22)
Walpita	105,000	92,000	112,684	107,963	7,684	7	4,721	4
Maduruoya	649,399	610,000	588,869	776,226	(60,530)	(10)	(187,357)	(24)
Dunkannawa	55,215	40,500	36,356	51,248	(18,859)	(52)	(14,892)	(29)

Middeniya	71,500	50,000	57,594	83,050	(13,906)	(24)	(25,456)	(31)
Thabbowa	35,000	-	30,614	31,265	(4,386)	(14)	(651)	(2)
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	5,336,114	5,152,500	5,456,913	5,749,928	120,799		200,137	
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The decrease of the actual crop of the year under review of the estates at Bandirippuwa, Ratmalagara, Makandura, Maduru Oya, Dunkannawa, Middeniya and Thabbowa as against the estimated crop had ranged between 5 per cent to 52 per cent.

(b) Crop per Acre and the Average Annual Crop per Palm

The information on the coconut crop per acre of 04 Genetic Resources Centres, 06 Research Centres and one Model Farm during the year under review is given below.

Genetic Resources Research Centre	Extent of Land with bearing Cultivation (Acres)	Number of bearing Palms	Fallen Coconuts (Nuts)	Total Annual Crop (Nuts)	Average Annual Crop per Palm (Nuts)	Crop per Acre (Nuts)	Fallen Coconut Percentage
Bandirippuwa	287	10,706	49,236	588,206	55	2,053	8
Ratmalagara	225	10,598	88,903	616,902	58	2,737	14
Ambakele	329	16,917	147,289	1,611,559	95	4,906	9
Pallama	498	14,246	401,549	703,720	49	1,413	57
Poththukulama	209	9,158	183,735	774,367	85	3,705	24
Makandura	127	4,200	38,815	336,042	80	2,646	12
Walpita	41	1,684	62,819	112,684	67	2,750	56
Maduruoya	195	7,546	175,019	588,869	78	3,012	30
Dunkannawa	23	862	5,863	36,356	42	1,562	16
Middeniya	71	1,281	638	57,594	45	817	1
Thabbowa	5	272	4,195	30,614	112	6,111	14
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	2010	77,470	1,158,061	5,456,913			
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- (i) The annual average crop per palm of the estates at Bandirippuwa, Ratmalagara, Pallama, Dunkannawa and Middeniya had been less than 60 nuts.
- (ii) Even though the average crop per acre should be 4,500 to 5,000 nuts approximately, the coconut crop per acre of 9 out of 11 estates of the Institute had been in the ranges of 817 to 3,705 nuts.

(c) Examination of the Progress of Research Projects

The following observations are made.

- (i) Sixteen Projects scheduled for completion by 31 December of the year under review had not been completed and progress of 08 out of those projects ranged from 10 per cent to 50 per cent.
- (ii) The Socio-economic Impact Assessment of the Oil Palm Cultivation scheduled for commencement in the year 2013 and completion in the year 2015 and 03 Projects on the Value Addition Analysis of Carbonic Agricultural Cultivation Systems, the Comparison of the Characteristics of Bio-charcoal produced from by-products of Different plants and Crops and the Study of the Development Parameters of Resin Crops as Subsidiary Crops of Coconut Cultivations scheduled for commencement in the year under review had not been commenced even up to the end of the year 2015.

4.2 Underutilisation of Funds

A sum of Rs.2,021,532 given by the Kinya Agro Forestry Project on 24 December 2014 for the World Forestry Project had been deposited in the Current Account without being utilized for the relevant project even up to the end of the year under review.

4.3 Idle and Underutilised Assets

The following observations are made.

- (a) The coir production machine costing Rs.259,000 of the Bandirippuwa Coconut Research Centre had not been used for production work over a period exceeding one year.
- (b) Even though a Heat Conservation Unit had been commenced in the year 2008 at a cost of Rs.1,719,250 for using the heat emitted in the production of coconut charcoal for drying copra instead of releasing the heat to the environment had been idling without being used from the year 2012.
- (c) Nineteen manual rope making machines valued at Rs.161,500 supplied by the Coconut Development Authority with the objective of encouraging persons engaged in Small and Cottage Industries had been idle, from the year 2013 without being used.
- (d) Out of the goods purchased with the intension of establishing a Coconut Seedling Nursery in Punarin, goods valued at Rs.1,197,187 remained idle without being used for about one year as that activity could not be executed.

4.4 Staff Administration

The approved and the actual cadre of the Institute had been 391 and 276 respectively and as such there were 115 vacancies in 34 posts. That represented 30 per cent of the approved cadre. In view of the vacancies existing in the posts such as Research Officer, Estate Superintendent, etc. such situation had an adverse impact on the conduct of research work which is the primary objective of the Institute.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan for a period of not less than 03 years should be prepared in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003 for the achievement of the Vision and Mission of the Institute, the Institute had not prepared a Corporate Plan for the year 2015 to 2018 even by 31 December 2015.

5.2 Action Plan

Even though the Board of Directors had approved the Action Plan on 07 April 2015 that plan had not been revised after considering the progress levels achieved by the Research Division, Research Development and Maintenance Divisions.

5.3 Tabling of Annual Reports

The Annual Report for the year 2013 had not been tabled in Parliament by the Institute.

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

Areas of Systems and Controls

Observation

(a) Human Resources Management	Failure of take action for the recruitment of officers to the vacancies existing in the Institute in accordance with the Scheme of Recruitment.
(b) Estate Management	Failure to take action for increasing the coconut crop and the failure to take necessary courses of action to introduce new varieties of coconuts.
(c) Assets Control	Failure to record all motor vehicles in the Register of Assets and the non-maintenance of relevant files and the information related to the disposal of assets.
(d) Internal Control	Instances of the same officer attending to the duties related to the approval, certification and making payments instead of distributing of those duties among several officers were observed.