

Coconut Development Authority – 2016

The audit of financial statements of the Coconut Development Authority for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, 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

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 misstatement 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 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 the financial statements. Subsections (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 Development Authority as at 31 December 2016 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 observations are made.

Sri Lanka Public Sector Accounting Standard 07

- (a) In terms of Paragraph 49 of the Standard, when the items of Property, Plant and Equipment are revalued, the entire class of Property, Plant and Equipment to which those assets belongs, should be revalued. However, out of the Lands and Buildings valued at Rs. 226,305,369 and Rs. 274,738,714 respectively, only the Lands and Buildings located at the Duke Street, Fort had been revalued and brought to account in the year 2012.

- (b) As a result of not reviewing the useful life time period for the non-current assets annually in terms of Section 65 of the Standard the cost of the Motor Vehicles valued at Rs. 60,430,940 were entirely depreciated, are further being used. Accordingly, action had not been taken to revise the estimated error occurred in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Unexplained Differences

The Opening Balance and the purchases of Office Furniture Equipment shown in the financial statements were Rs.29,332,629 and Rs.2,929,930 respectively and according to the Register of Fixed Assets the opening balance and purchases were Rs.35,314,434 and Rs.2,749,920 respectively. Accordingly, a difference of Rs.5,981,805 and Rs.180,010 respectively were observed.

2.3 Accounts Receivable and Payable

Even though the sum given to a 'Govi Samagama' amounting Rs.2,000,000 by the Authority in the year 2006 should be paid in return according to the conditions in the agreement within a 06 month period, a receivable balance amounting Rs. 1,450,000 was remained even as at the end of the year under review.

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

Since the non-application of cost of living allowance when calculating the contribution to the Employees' Provident Fund in terms of Section 47(2) of Employees' Provident Fund Act No. 15 of 1958, a surcharge amounting to Rs. 5,914,009 had been paid in respect of 207 employees from the year 2006 to the year 2012 in the year under review.

3. Financial Review

3.1 Financial Results

The financial result as at the year under review amounted to a surplus of Rs. 96,418,633 as compared with the corresponding surplus of Rs.169,146,980 for the preceding year. Accordingly, a deterioration of Rs.72,728,347 in the financial result was observed. The decrease of income on testing and processing charges by Rs. 91,587,176 and the increase of research and training expenses by Rs. 18,669,679 had mainly attributed to the above deterioration.

In analyzing the financial results of 04 preceding years and the year under review even though a deficit had been occurred in the year 2012 a surplus had occurred from the year 2013 to the year under review. However, the contribution of the Authority in the year 2012 consideration of the employees remuneration, the depreciation on the non-current assets and taxes to the Government amounted to Rs. 80,631,000 and that had gradually increased to the year 2015. The contribution of the Authority in the year 2016 was Rs.235,630,000 . That was a deterioration of 27 per cent as compared with the year 2015.

3.2 Legal Action Instituted by the Authority

The Authority had filed 02 cases against a company and a person in respect of sums receivable to the Authority.

4. Operating Review

4.1 Performance

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

- (a) Assisting the Minister in the determination of developmental priorities and the formulation of Policies in relation to the Lands which are currently under the coconut industry and the coconut cultivation and the economic utilization of lands for coconut cultivation.

- (b) Designing Projects and Schemes in conformity with the developmental priorities that have been determined so or assisting in the formulation of such Projects and Schemes, implementation of Projects and Schemes designed so or assisting in the implementation of such Projects and Schemes, coordination of the activities of the Boards which have been established by the Minister under the Act, approval of the Annual Budget and the Provision of Funds to them, provision of instructions and assistance for the preparation, implementation and maintenance of proper Management Accounting Systems .
- (c) Evaluation of the progress of the Boards in relation to the developmental priorities and policies determined by the Minister, obtaining the consent of the Minister entering into co-operations with the international Organizations having equal entitlements and equal duties to perform.
- (d) Provision of financial or any other assistance to Individuals or Personnel Boards who conduct Scientific Research on an aspect pertaining to the Coconut Industry or the products related to the Coconut Industry or Lands which are under the Coconut Cultivation and the utilization of lands for Coconut Cultivation and co-ordination of such research activities.
- (e) Provision of instructions to the Minister regarding all the matters that have an effect to the Coconut Industry or related to the Coconut Industry and
- (f) Taking any or all the steps which are deemed to be required for the development and regeneration of the Coconut Industry according to the opinion of the Authority.

The following observation is made.

Even though the loan installments and the interest payable for the loan amounted to Rs. 26,715,037 which had been granted to a private company in the year 1985 as an activity excluding the objectives of the institution had not been settled, a sum of Rs. 31,600,000 by Rs. 25,000,000 in the year 2002 and Rs. 6,600,000 in the year 2004 had been granted again to those companies without interest and out of that Rs. 31,550,000 was in arrears to the Authority even up to now.

4.2 Management Activities

The following observations are made.

- (a) Although the Development Fund of the Desiccated Coconut Mills in which the Registrations were cancelled by the Authority had been adapted to the Jaya Isuru Scheme, if a certain Desiccated Coconut Mill would be implemented again the Fund relating to that Mill should be reimbursed. Even though the Mills inactivated had been started the production again in the year under review, those Funds had not been reimbursed.

- (b) The sum of 20 cents per each Kilogram which is being charged for the production of Desiccated Coconut was decided 40 year ago by the Authority and action had not been taken to revise that amount timely.
- (c) Even though a sum of Rs. 3,936,228 to the Sri Lanka Broad Casting Corporation and Rs. 9,344,832 to the Rupavahini Corporation had paid at the same time for the Proramme for the Promotion of Coconut Milk, Coconut Milk Powder, Coconut Cream among Consumers, the cost of the programmes conducted were Rs. 3,799,258 and Rs.2,284,800 respectively. Accordingly, a sum of Rs. 136,970 and Rs.7,060,032 respectively were remained as balances in Sri Lanka Broad Casting Corporation and Rupavahini Corporation and action had not been taken to recover that amount or to conduct other programmes instead of that.
- (d) According to the Budget Estimate of the year under review it had been estimated to purchase a Vehicle for Mobile Laboratory for Rs. 20 Million by the Authority and even though the approval of the Board of Directors had been obtained on 30 July 2014 the purchasing activities had not been done even up to now.

4.3 Operational Activities

The following observations are made.

- (a) Even though the exporters were registered relating to the coconut productions of the Authority a quality examination is not being done for the other productions rather than the Desiccated Coconuts by the Authority and such examination is done only on request of an exporter.
- (b) Even though the ISO Quality Certification had been granted by the Sri Lanka Accreditation Board for the examination of getting poisoning of Salmonella, due to non-availability of the essential experimental equipment which should be available in the Laboratory of the Authority and unavailability of relevant subjected analysts a second testing had to be had to the Authority from another recognized institution.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Out of the Thirty two Cameras in CCTV Camera System installed in October 2014 by spending a sum Rs.1,068,886 by the Authority 19 were not at working condition.
- (b) A sum of Rs. 28,594,785 had been retained in the bank current accounts by the Authority at the end of the year under review.

4.5 Uneconomic Transactions

The following observations are made.

- (a) Even though the Director General had requested on 28 January 2016 since the telephones obtained from a private institution which were used for the official matters at the Fort office of the Authority were defective and dormant, as a result of actions not taken to disconnect them a sum of Rs.529,907 had been paid to that private institution from 29 September 2015 to 29 February 2016 . Further, due to non-disconnection of Telecom telephones removed from using after obtaining the telephone connection from that private institution on September 2015, a sum of Rs.395,200 had been paid by the Authority as Rs. 91,200 for the year 2015 and Rs. 304,000 for the year under review in respect of 32 telephone connections.
- (b) Two orders had been placed to an institution outside from registered suppliers of the Authority valued at Rs. 9,931,250 for printing of 1,625,000 stickers for Rs. 1.70 per each and 3,875,000 stickers for Rs.1.85 per each in the year under review with the approval of the Board of Directors away from the Procurement Procedure. Accordingly, out of the entire stock of stickers 5,500,000 received on 24 November 2016 and 13 February 2017 respectively only 375,000 stickers had been issued by 14 March 2017.

4.6 Identified Losses

The following observations are made.

- (a) Since non-application of cost of living allowance when calculating the contribution to the Employees' Provident Fund during the period of the year 2006 to the year 2012 , the 10 per cent of the cost of living allowance relating to contribution for the Provident Fund amounted to Rs. 1,182,802 which should be paid at that instance by the employees had been paid by the Authority in the year under review .
- (b) A fifty per cent from outstanding contribution should be paid as surcharges for the delay of payment for Employees' Provident Fund. According to that , the surcharge which should be paid in respect of the unpaid contribution for the Employees' Provident Fund by the Authority was Rs. 708,624 even as at 05 January 2017 of which the date of audit.

4.7 Staff Administration

The following observations are made.

- (a) The approved cadre of the Authority was 258 and the actual number of employees were 193 at the end of the year under review.
- (b) A loan amounting Rs.204,886 granted to an Office Assistant of the Authority who was temporarily released to several Ministries had not been recovered from the year 2009 .

5. Accountability and Good Governance

5.1 Budgetary Control

The Budget Estimate had not been prepared to be reconciled with the actual expenditure in the preceding year.

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

(a) Human Resources Administration	Necessary actions not taken in respect of recruitments.
(b) Operating Control	As a result of inefficiency in operating control the lost of receivable income to the Authority.
(c) Accounting	Not updating the Accounting System using for the storage activities.
(d) Accounts Receivable	Actions not taken to recover the balances in long term receivables.
(e) Assets Utilization	Non- using of the assets efficiently.