

## **Coconut Development Authority – 2017**

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The audit of financial statements of the Coconut Development Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, 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**

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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**

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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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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In terms of Paragraph 53 of the Standard No. 07, when the carrying amount of a assets when the items of Property, Plant is decreased at the revaluation.

In terms of section 53 of public section accounting standard 7 if any revaluation decrease of carrying amount of a assets should directly be debited against the excess of the entire class of the assets to which those asset was belongs. But the revaluation deficit sum of Rs.8,673,540 of building in Dunkannawa estate had been written off against the profit for the year instead of debiting to the revaluation excess of the entire class of the assets.

#### **2.2.2 Accounting deficiencies**

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The following observations are made.

- (a) Air conditioners and electric fans purchased during the year under review valued for Rs.3,429,422 had been shown under buildings instead of shown under office furniture and equipment. Thus, value of the building from the same amount and depreciation of buildings by sum of Rs. 489,185 had been over stated in the financial statement.
- (b) Value of 164 machineries, computers, office furniture and equipment items belonged to the 'Dunkannawa estate' which was leased to the coconut research board and then taken over to the authority in 2016 had not been valued and taken in to the financial statements.
- (c) Even though, the balance of the revaluation reserve account as at 31 December 2017 was Rs.107,190,964 the revaluation value of motor vehicles of Rs.64,975,000 has been adjusted as the final balance of the revaluation reserve and the difference of Rs.42,215,964 had been transferred to the financial performance statement. Thus, the profit of the Year had been overstated by the same amount.

- (d) Concession interest expenses of Kapruka Jaya Isuru loan scheme a sum of Rs.2,745,383 had not been accounted as a expense in the year under review, but considered as a debtor in the financial statements. So such, interest expenses in the year under review had been understated and the debtors balance at the end of the year under review had been overstated by the same amount.

### 2.2.3 Suspense Account

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Credit balance of Rs.1,871,776 in the suspense account has remained since 2016 and action had not been taken to identify and settle by the authority.

### 2.2.4 Lack of Evidence for audit

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Evidence indicated against each item of accounts shown below and had not been made available for audit.

Accounts Items -----	Value -----	Evidence not available -----
	<b>Rs.</b>	
(i) Receipts for the supply of services to D.C.Millers	2,009,913	Receipts
(ii) Credit Sales	3,136,537	Invoices

## 2.3 Accounts Receivable and Payable

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The following observations are made

- (a) Action had not been taken to recover debtors balance of Rs.180,485 remained under CESS fund over 5 years.
- (b) A sum of Rs.31,550,000 should be received from a private company given as a loan in years 1984, 2002 and 2004 at the end of the year under review. The interest thereof amounting to Rs.40,116,090 relevant to that loan had not been shown in the financial statements as receivables.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the financial result for the year under review amounted to a surplus of Rs. 140,413,563 as compared with the corresponding surplus of Rs.96,418,633 for the preceding year. Accordingly, an improvement of Rs.43,994,930 in the financial result was observed. Even though, government income had decreased by Rs.14,310,017 the increase of other income by Rs.133,833,931 increase of staff remuneration by Rs.20,020,168 and increase of training and development expenses by Rs.29,292,265 were the main reasons attribute to this improvement.

In analyzing the financial results of 04 preceding years and the year under review, the surplus of Rs.36,419,413 in the year 2013 deteriorated to Rs.15,457,175 in the year 2014 but had improved to Rs.140,413,563 in the year 2017. However, the contribution of the Authority in the year 2013 consideration of the employees remuneration, depreciation on the non-current assets and taxes to the Government amounted to Rs. 118,356,413 had decreased to Rs.116,614,175 in the year 2014, but the contribution of the Authority had increased to Rs.309,001,563 in the end of the year under reviewed with variations.

### **3.2 Analytical financial review**

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The following observations are made

- (a) Treasure grant represents 39 per cent from the total income of the authority in the year under review.
- (b) Compare to the proceeding year other income had increased by seventy per cent and increase of interest income, laboratory income and testing and processing charges are the main reasons for this increase.
- (c) Compare to the preceding year current ratio had decreased by from 1.18 to 1.8 in the year under review.

### **3.3 Legal Actions Initiated by the Authority and against to the Authority**

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The following observations are made

- (a) Legal action had been taken by an officer of the Authority in the supreme court on the ground that discountine of human rights, on a promotion in the year under review.
- (b) A legal case is proceeding in the High Court with regards to a cash fraud of Rs.2,000,000 done by an ex-accountant of the authority and investigation had been carried out with regards to another Rs.1,300,000 by the Fraud Investigation Bureau.

## **4. Operation review**

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### **4.1 Performance**

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#### **4.1.1 Performance and Review**

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The following observations are made

- (a) Even though, a sum of Rs.5.3 million had been included into the action plan to buy equipments required to assist and establish 05 technology exchange centres, to make quality production and prepare a data system to get and give production data towards implement by the Project unit of the authority, action had not been taken by the authority to carryout activities in this regards in the year under review.

- (b) Even though a sum of Rs.3.5 million had been allocated in the action plan to assist to make value addition coconut production outer area of the coconut triangle, out of that only Rs.0.54 million had been utilized.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Even though balances of Rs.136,970 and Rs.7,060,032 should be received from the Sri Lanka Broadcasting Corporation and Rupavahini Corporation from the amount paid in 2014 for advertising with objectives of promoting coconut milk, coconut milk powder and coconut cream among consumers by the authority, action had not been taken to recover the balance or to advertise another programmes even by the end of the year under review.
- (b) A sum of Rs.293,677 and Rs.308,823 had been paid for in house treatments and reimbursement of medical bills respectively for the staff by the authority due to that delay of procurement activities of the surgeries and hospital insurance scheme by 2 months and 19 days.
- (c) The Authority was unable to receive the brand name of 'Ceylon Coconut' for coconut productions exporting by Sri Lanka till end of the year under review.

#### **4.3 Staff Administration**

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At the end of the year under review, Director (process development), Director Marketing (international), Legal Officer and Quality Control officer of the authority had remained in vacant and action has not been taken to fill the vacancies with qualified officers.

### **5. Sustainable Development**

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#### **5.1 Achievement of Sustainable Development Goals**

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Every public institute should act in compliance with the circular No. NP/SP/SDG/17 of 14th August 2017 issued by the secretary to the Ministry of National Policies and Economic Affairs on the '2030 agenda' of the United Nations for Sustainable Development. With respect to the year under review, the Coconut Development Authority had aware as to how to take measures relating to the activities under the preview of the scope. The following observations are made in the in this regard.

- (a) The activities identified by the authority for achieving the sustainable development goals, has not been included in the Annual Plan, whilst the financial provision required to carry out those activities had not been included in the annual budget.

- (b) Even though the existence of the accurate statistical data is compulsory for evaluating the performance of a certain activity. It was observed that the authority had not taken action to maintain an accurate collection of data in view of evaluating the achievement of sustainable development goals.

## 6. Accountability and Good Governance

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### 6.1 Deficiencies in Control Administration

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As per the agreement of Rs.17,105,455 entered with a contractor on 25 September 2017 for modification of the laboratory, the relevant construction should be completed before 25 December 2017, But, the construction had not been completed even by the date of audit of 30 July 2018. Hence, laboratory equipments purchased in 2017 for sum of Rs.17,950,802 could not be utilized for relevant objectives.

## 7. Systems and Controls

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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

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### Observations

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(a) Accounting	(i) Fixed assets had not been accurately categorized and accounted. (ii) Make Adjustment though Journal entries without recommendation of responsible officers.
(b) Human Resources Management	Necessary actions had not been taken in respect of recruitments for major posts.
(c) Budgetary Control	Budgeted funds had not been utilised to achieve relevant objectives.
(d) Assets Management	Delay relating to getting the report for fire damage occurred in the office building at Adipada Street, Fort and office equipment and computer accessories worth of Rs.3,312,462 had been written off from the books without proper order.