

Coconut Cultivation Board – 2017

The audit of the Financial statements of the Coconut Cultivation Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made

(a) **Sri Lanka Public Sector Accounting Standard 01**

In terms of Paragraph 48 of the standard, assets and liabilities shall not be offset unless required or permitted. However, the balance amounting to Rs.15,410,650 payable to the Model Coconut Gardens and the balance receivable from the nurseries amounting to Rs.6,609,604 had been offset each other and the net asset amounting to Rs.8,801,046 had been shown as a minus value under the current assets in the statement of financial position.

(b) **Sri Lanka Public Sector Accounting Standard 02**

(i) Allocation for lease amounting to Rs.138,785 for Model Coconut Gardens and the lease amount of Rs.38,785 paid in cash in the year under review had not been included in the cash flow statement .

(ii) Even though a sum of Rs.45,235,649 had been shown in the statement of financial performance as interest income in the year under review, it had been shown as Rs.43,136,912 in the cash flow statement thus the cash flow generated by the operating activities had been over stated by Rs.2,098,737.

(iii) Even though the increase of the payables amounted to Rs.75,474,232 according to the statement of financial position, it had been stated in the cash flow statement as Rs.68,541,914 thus the cash flow generated by the operating activities had been understated by Rs.6,932,318 .

(c) Sri Lanka Public Sector Accounting Standard 07

Even though 239 motor vehicles costing Rs.140,146,793 had been fully depreciated due to not reviewing the useful life annually for the non-current assets in terms of Paragraph 65 of the Standard, those 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 **Accounting Policies**

Even though a sum of Rs.1,463 million had been received as Treasury and Ministerial grants to the Board during the year under review, an accounting policy for the identification of those grants as a differed income on a regular basis had not been disclosed in the financial statements.

2.2.3 **Accounting Deficiencies**

The following observations are made.

- (a) A creditors balance amounted to Rs.7,596,568 in the preceding year had been shown as a creditor of the year under review without adjusting to the accumulated profit for the rectification of non-identification of that amount as an income of the said year.
- (b) A sum of Rs.3,588,212 paid to the contract creditors for the construction of a quarters at Trincomalee had been debited to the Work-in-Progress Account instead of debited to the said Creditors Account..
- (c) As a result of a sum of Rs.491,215 over stated to the Building Account and the Creditors Account relating to the construction of the circuit bungalow at Katukeliyawa in Anuradhapura, the balance of those accounts had been over stated by the same value. Further, due to the said reason, depreciation for buildings had been over stated by Rs.124,822
- (d) A sum of Rs.844,253 which had been debited to the Work-in –Progress Account erroneously in the settlement of the money payable to the contractors in preceding year, had been debited to the accumulated profit instead of debited to the creditors in the correction of the year under review. As a result of that, it was shown that the creditors overstated and the accumulated profit under stated by the same value.
- (e) An expenditure amounting to Rs.641,390 incurred for the repairing of vehicles had been debited to the Motor Vehicles Account.

2.2.4 **Unexplained Differences**

The following observations are made.

- (a) Even though the balance payable to the Coconut Research Board by the Coconut Cultivation Board at the end of the year under review had been shown as Rs.31,802,639 , the balance receivable from the Coconut Cultivation Board had been shown as Rs.5,210,217 according to the financial statements of the Coconut Research Board.
- (b) Even though the balance of the accumulated fund according to the audited financial statements as at 31 December 2016 amounted to Rs.712,876,018 , an unexplained difference of Rs.6,932,320 shown due to the said balance brought forward as Rs.705,943,698 as at 01 January 2017.
- (c) Even though the money payable to the John Keels Company according to the financial statements amounted to Rs.5,119,000, the amount payable according to the confirmation of balances of that institute amounted to Rs.500,500 thus a difference of Rs.4,618,500 was existed.
- (d) The balance of the Kapruka Sureties coverages investments according to the financial statement as at 31 December 2017 amounted to Rs.1,337,340 and the said balance amounted to Rs.1,328,041 according to the confirmation of balances, thus a difference of Rs.9,299 was observed.
- (e) Even though according to the schedules for provision of gratuities in the Head Office as at 31 December of the year under review the balance of gratuity amounted to Rs.168,681,558, the said value amounted to Rs.159,339,824 according to the financial statements, thus a difference of Rs.9,341,734 observed and the said difference had not been reconciled.

2.2.5 **Lack of Evidence for Audit**

Journal vouchers relating to the adjustment of the balance of Rs.888,642 of the initial seed coconut stock of the Model Coconut Gardens Accounts was not presented to audit.

2.3 **Accounts Receivable and Payable**

The following observations are made.

- (a) A balance amounting to Rs.1,260,899 was remained outstanding over a period of five years as retained as at 31 December 2017 , action had not been taken to settle the said balance or identify as an income of the Board.
- (b) Security deposits amounting to Rs.518,046 which had been obtained from the year 1979 to the year 1992 from 08 employees who served as store keeper and the Shroff who are resigned from the service at present, had been brought forward in the financial statements continuously without taking action to settle.

- (c) The sum amounted to Rs.2,308,030 included in the trade debtors was not recovered from a period more than 5 years and action had not been taken for the recovery of the said balance.
- (d) The employee loans amounted to Rs.1,218,973 as at 31 December 2017 and out of the said balance ,the employee loans not recovered from more than 5 years amounted to Rs.341,496. A suitable procedure had not been implemented for the recovery of that balance.
- (e) The balance amounting to Rs.372,538 receivable from the Building Department and the balance amounting to Rs.6,573,572 receivable from the Ministry of Coconut Development and Janatha Estate Development were remained and not recovered from the period more than 4 years.
- (f) Action had not been taken to identify and settle the sum amounting to Rs.26,522 brought forward in the financial statements as the fixed deposit interest receivable from the year 2009 up to the year under review .
- (g) A balance amounting to Rs.936,492 recovered from the loan received for the purchase of motor bicycles to the Coconut Development Officers under the Asian Development Bank Project had been shown under the current liabilities without being settled more than the period of five years .
- (h) Action had not been taken to recover the sum amounting to Rs.4,445,975 recoverable for the coconut plants granted for the District Secretariats under the Divineguma National Programme in the year 2015 from the Regional Office at Jaffna.

2.4 **Transactions not Supported by Adequate Authority**

Thirteen journal vouchers of the value amounted to Rs.563,336,141 had been included in the financial statements without obtaining approval.

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.20,936,962 as against the corresponding surplus of Rs.265,079,686 for the preceding year, thus indicating a deterioration of Rs.286,016,648 in the financial result for the year under review as compared with the preceding year. Decrease of the provisions provided by the Ministry by Rs.176,142,677 and decrease of the profit of the Model Coconut Gardens by Rs.121,369,553 in the year under review had mainly attributed to the above deterioration.

In analyzing the financial results of the preceding four years and the year under review, a financial surplus amounted to Rs.71,772,762 and Rs.34,890,412 had prevailed in the years 2013 and 2014 respectively and a deficit of Rs.36,341,560 existed in the year 2015. Even though ,a surplus amounted to Rs.265,079,686 had been existed in the year 2016 again and a

deficit amounted to Rs.20,936,962 existed in the year under review. However, after re-adjustment of employees' remunerations and depreciations on non-current assets to the financial result, the contribution of the Institution of a plus value amounted to Rs.348,403,288 in the year 2013, had been increased up to Rs.344,765,825, Rs.347,184,286, Rs.654,627,066 in the years 2014,2015 and 2016 respectively and it had been decreased up to Rs.372,748,791 in the year under review.

3.2 **Analytical Financial Review**

According to the financial position as at 31 December 2017, the current assets ratio of the Board were 3.74 and 6.31 in the years 2017 and 2016 respectively and the quick ratio was 1.08 and 1.9 respectively ,thus a deterioration observed in the said ratios as compared with the preceding year. As such, the net profit ratio of 16 per cent of the Board in the preceding year , had been a minus value of 1.43 per cent in the year under review.

3.3 **Legal Cases Instituted Against the Board or by the Board**

The following observations are made.

- (a) Cases had been filed in Courts against the Board by 7 employees and 02 external individuals . Out of that 03 persons filed cases against the Board claiming compensations of Rs.11,328,805 for dismissed from the service and insulted by the management and claiming a sum of Rs.1,000,000 for the road accident done by a driver .
- (b) The Board had filed cases in Court against 2 external parties and an employee claiming compensation totalling Rs.4,555,819.

4. **Operating Review**

4.1 **Performance**

4.1.1 **Function and Review**

The following observations are made.

- (a) Even though plans had been made to distribute 2,000 vials of Black Beetle Control Pheromones under diseases and pest control in the year under review by the Board, action had not been taken to order those vials quickly by identifying the requirement and distribute without delaying and only 500 vials had been distributed.
- (b) Even though plans had been made to cultivate 13,700 King Coconut plants systematically under new cultivation/ re-cultivation/ under cultivation programmes in the year 2017 , only 2,163 King Coconut plants had been cultivated. Action had not been taken by the Board to cultivate by identifying the high quality King Coconut seeds .

- (c) Percentage of applying Myta predators in Model Coconut Gardens such as Lenawa, Mundalama, Kohombana, Palei and Korei was between 10 per cent to 36 per cent. As a result of non- applying of Myta predators to avoid Myta damage, the number of coconuts with Myta damage is increased . The Board had not taken action to recruit trained employees to increase the production of predator Myta packets in the Myta laboratories established in the Board and apply of predator Myta packets.

4.2 **Management Activities**

The following observations are made.

- (a) Even though plans had been made to produce 1,802,654 potted plants in the year 2017 , the number of potted plants actually planted was only 659,332 due to the reasons such as the procurement procedure had not been carried out in due time, the suppliers had not supply poly bags in due period ,supply of substandard poly bags . Accordingly , a quantity of 1,143,322 coconut plants expected to be planted as potted plants had to be planted as ground plants and the income could have been earned to the Board had been lost due to the said reason.
- (b) Approval had been granted to obtain 04 pool vehicles each Rs.120,000 monthly under operating lease method by the letter No.PE/NBE/CCB/GEN/2016 dated 03 January 2017 of the Department of Public Enterprises. However, an additional amount of Rs.180,000 should have been paid monthly due to the monthly instalment amounting to Rs.165,000 each had been paid and the said vehicles had been utilized as the vehicles allocated for the officers instead of running as pool vehicles.
- (c) Even though a sum of Rs.2,149,974 had been paid to an Advisory Company for the preparation of estimates for the construction of the new office building of the Seed Coconut Unit at Negombo at a cost of Rs.55 million , the activities of construction of the building had not been commenced up to 30 August 2018 due to the management had not taken necessary action to select a suitable contractor.
- (d) Three Bank Accounts of the balance amounted to Rs.433,039 were dormant from nearly a period of 6 years and the management had not taken action to close the said accounts.

4.3 **Abandoned Projects**

Even though a sum of Rs.2,838,619 had been spent for the construction of the quarters at Kurunegala , the said construction had been abandoned from the year 2015.

4.4 **Staff Administration**

The approved and actual cadre as at 31 December 2017 was 925 and 637 respectively and as such 288 vacancies existed in the staff . Further, 110 officers had been recruited by the Board for the Model Coconut Gardens without the approval of the Department of Management Services.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Public Institution should be act in terms of the “Agenda 2030 “of the United Nations on Sustainable Development, accordingly , the Board had aware how to come into operation on the activities come under their scope and the following observations are made in this connection.

- (a) Failure to identify the indicators for the measuring of performance of the coconut cultivation as mentioned above , due to failure in maintaining a data base for the measuring of performance of the coconut cultivation.
- (b) The functions identified by the Board for the achievement of Sustainable Development Goals had not been included in the Annual Action Plan and the financial provisions required for the execution of the said functions had not been included in the Annual budget.
- (c) Even though the minor and medium scale cultivators could be identified as the parties who enthusiastic on the duties of the Board relating to implementation of the Sustainable Development Goals, the Board had not taken action to identify them.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements had been presented on 30 May 2018, after a delay of about 03 months..

6.2 Procurement and Contract Procedure

6.2.1 Procurement

Even though a solar power system valued at Rs.7,461,500 had been established in the year under review, it had not been included in the Procurement Plan.

6.2.2 Deficiencies in the Contract Administration

The contract of the construction of a new two storied building of the regional office at Matala contract value amounted to Rs.36,726,905 which had been commenced in the year 2015, scheduled to be completed on 04 July 2017 and the following matters were observed in this connection.

- (a) The construction activities of the two storied building had been handed over to the same contractor as two contracts by separating the two stories into two stages contrary to the Paragraph 4.4 of the Procurement Guidelines instead of handing over as one contract
- (b) A delay charge amounting to Rs.3,672,710 had not been charged under a maximum of 10 per cent of the contract value in terms of the agreement as a result of the contract had not been completed within the due period as mentioned in the contract agreement.

7. **Systems and Controls**

Deficiencies 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.

Areas of Systems and Controls -----	Observations -----
(a) Accounting	(i) Failure to approve the journal vouchers . (ii) Failure to follow the Accounting Policies by certain public sectors.
(b) Operating Control	(i) Failure to plant seeds which could gain more harvest, failure to uproot unsuccessful plants and failure to proper maintenance of nurseries. (ii) Maintaining of definite number of trees and maintenance of coconut cultivation.
(c) Human Resources Management	(i) Failure to recruit suitable employees to the vacant posts