

Coconut Research Board - 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Coconut Research Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's Responsibility in Auditing Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute,, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 **Comments on Financial Statements**

1.5.1 **Non-compliance with Sri Lanka Public Sector Accounting Standards**

Non-compliance	Comments of the Recommendation Management	
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(a) Although property plant and equipment should be revalued every three or five years in terms of Paragraph 47 of Standard No.7, the Lands valued at Rs. 1,522,283,874 and the buildings valued at Rs. 210,074,759 had not been revalued and taken in to accounts after the year 2005.	The Department of valuation is already carrying out the revaluation of these buildings.	The relevant assets should be revalued and included in the financial statements in accordance with the Standard,.
(b) Even though 126 vehicles which had been completely depreciated cost at Rs. 61,901,689 in terms of Paragraph 65 of Standard 07, were being used furthermore had not been revalued considering the useful life of those assets.	This is a very difficult task to do in a short time because there are so many assets for every asset class of the organization. Therefore, it is informed that actions will be taken to revalue each asset class.	As fully depreciated assets are still being used, those assets should be revalued considering the effective lifetime.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Due to non-removal of depreciation provision of assets in the relevant year amounted to Rs. 82,750 and Rs. 1,084,750 from accounts in calculating the profit earned from assets removed from the Board in the year under review, the asset removal losses in the year under review were over calculated by a sum Rs. 1,167,500 and the cost of the property plant equipment of Rs. 1,084,750 had been overstated in the Financial Statement.	As the depreciation adjustment for the year in which these assets are disposed of, has been missed, it is informed that the actions will be taken to adjust it in the year 2019 accounts.	When depreciating assets the cost and depreciation of those assets should be removed from the respective accounts and shown in the financial statements.
(b) Since the capital expenditure made to purchase of Laboratory Equipment amounted to Rs. 2,200,000 and concreting of road amounted to Rs. 9,850,658 in the year under review was stated as recurrent expenditure of the year, the profit for the year had been understated by a sum of Rs. 12,050,658 .	Actions will be taken to correct this in the year 2019.	When accounting for expenses, the recurrent and capital expenditures should be identified and recorded in the accounts accurately.
(c) Although the gratuity provision made in the financial performance statement was Rs. 39,139,186, since it had been stated under non-cash adjustments in the operating activities of the cash flow statement as Rs. 38,780,938 the net cash flow generated from operating activities was understated by a sum of Rs. 358,248 .	The gratuity amounted to Rs. 456,979 which had been overpaid to 07 Officers of the Institute, a sum of Rs. 601,250 paid for 03 officers who had left the Institute and the adjustment of gratuity amounted to Rs. 213,978 of an officer who has gone abroad was set off to his surety bond through expenditure account had caused to this difference .	Despite a sum of Rs. 39,139,186 was shown as gratuity provision under the operating activities in the cash flow statement, the accurate balance relating to that should be included.

1.5.3 Lack of Evidence for audit

Audit Observation	Comments of the Management	Recommendation
The balance confirmation letters had not been submitted to audit to ascertain the sundry debtor balances amounted to Rs. 32,223,012 and the balance of sundry creditors amounted to Rs. 1,338,457 remained at the end of the year under review.	Although, all debtor and creditor balance verification letters have been sent, the balances have not been confirmed.	Actions should be taken to made aware the relevant party to confirm the relative balances directly to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation	Comments of the Management	Recommendation
Even though an advance payment of Rs. 159,936 had been made to a private firm in the year 2012 for the renovation of buildings, action had not been taken to settle the respective cash advances up to now.	This is an advance paid for renovation of official residence and circuit bungalow at Walpita Research Center. Since this is a balance which has been in existence since 2012, it will be presented to the Board of Directors and further action will be taken according to that instructions.	Actions should be taken to settle the advance payments soon at the end of the construction work .

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

The following observations are made.

References to Non-compliance Laws, Rules, Regulations etc.	Comments of the Management	Recommendation
(a) F.R 396 (d) Despite the 03 cheques valued at Rs. 349,040 provided for gratuity	These cheques have been extended and sent back to the	Actions should be taken to act in accordance with the

<p>payments, maintenance costs and chemical equipment purchases, had not been submitted to the bank for more than 06 months, actions had been taken as per the Financial Regulations with regard to that.</p>	<p>relevant persons. However, if such cheques are not submitted for payment continuously, it is informed that the actions will be taken to inform relevant persons and to cancel.</p>	<p>Financial Regulations with regard to the cheques that have expired for more than 06 months.</p>
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| <p>(b)</p> | <p>Section 85 (i) (a) of the Inland Revenue Act, No. 24 of 2017</p> | <p>Even though when an employee is paying for service or the contract for a resident individual who is not an employee of the payee ,exceeds a sum of Rs. 50,000 per month, a 5 per cent reduction in withholding tax should be remitted to the Department of Inland Revenue when an employee is paying the Withholding Tax of Rs. 7,778,442 paid on 08 occasions for 05 persons and a sum Rs. 388,922 for Contract Payments, had not been reduced and not remitted to the Department of Inland Revenue.</p> | <p>It is informed that the deduction of withholding taxes from these payments and remit them to the Department of Inland Revenue, it is being implemented from the beginning of 2019.</p> | <p>Withholding taxes should be deducted in accordance with the provisions of the relevant Act and send to the Department of Inland Revenue.</p> |
| <p>(c)</p> | <p>FR 756</p> | <p>Library books and periodicals valued at Rs. 3,159,059 had not been verified by the end of the year under review.</p> | <p>It is informed that the annual verifications in order to library books and periodicals will be conducted during this year.</p> | <p>Action should be taken to verify library books in accordance with Financial Regulations.</p> |

2. Financial Review

2.1 Financial Results

The operating results for the year under review was a deficit of Rs. 58,993,686 and the surplus as against to previous year was Rs. 26,752,992 . Accordingly, there was a deterioration of Rs. 85,746,678 in the financial result. The decrease in income of Research C enters decreased by a sum of Rs. 28,358,135 and the increase in the cost of Research Centers by a sum of Rs. 35,944,277 had mainly attributed to the deterioration in operating results.

2.2 Ratio Analysis

The current ratio from 1: 1.35 to 1: 1.42 and the quick ratio from 1: 0.96 to 1:1.04 had increased from the preceding year to the year under review. The profit margin of 5.04 of the preceding year had dropped to a loss of 11.25 per cent . The profit margin was 5.04 per cent last year had become a loss of 11.25 per cent. The decrease in sales of coconut and coconut seedlings had mainly attributed to this.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Even though a cost of Rs. 1,121,678 had been incurred on the Sheep Farming Research Project in coconut cultivation in the years 2016 and 2017, since the officer in charge of the project had not handed over the details of the investigation to the Board when left from the service , the Project could not be implemented.	The work is already started by now to conduct this research in a different way and using the materials purchased for this research has been deployed to irrigate for goats and sheep sheds. Similarly, to find out how these animals can be used for weeding in coconut plantation, the work is being carryout to commence research on the use of animals under the Paddock System. Wires and tubes purchased for this research have been used for this purpose.	It is the responsibility of the research officer to complete the relevant research project in time and it is the responsibility of management to take appropriate action on negligence of that responsibility.
(b) Due to the dry weather, considering the decrease in seed production, the establishment of adequate irrigation systems to provide the water and the failure of the Board to increase the yield of new coconut varieties, the seed production decreased to 828,070 in the year 2018 from 1,107,642 in the year 2017.	The seed production also shows a change in average coconut yield. Water supply systems for seed coconut gardens commenced in the year 2017 and the water supply system of the Maduru Oya seed coconut garden has been established by now. Even though water supply systems for	Action must be taken to install irrigation systems for estates where coconut production is low due to inadequate water supply.

Ambakele and Pallama Genetic Resource Centers have been installed, the cost of the covering entire seed coconut plantation is high. Actions will be taken to fully cover these two seed coconut gardens in future.

- (c) The physical performance of the 07 Research Projects which were in due to be completed in the year under review with allocation amounted to Rs. 11,925,500 was in between 45 and 80 per cent. Although this was mainly due to shortage of research officers, resignation of research officers, lack of chemicals, the delay in purchasing chemicals, the Management had not taken necessary action for this.
- The shortage of officers, Research Officers leaving the Institute and joining the University, the short-term transfer of new recruits to other jobs has led to a decline in the physical performance of Research Projects.
- Examine the factors that may affect the performance of the Research Project and arrangements will be made promptly to correct this situation.
- (d) A sum of Rs 273,000 incurred for Isolation & Identification of Vascular Arbuscular Mycorrhizae (VAM) from Coconut Land Project which was established with the objective of identifying microorganisms living in the soil which helps to maintain coconut palm's performance in dry climates, by the end of the year under review and the Research Officer in charge of the project was had left abroad and even though it was supposed to be completed by 2019 the project was discontinued in the year under review and the Board was unable to carry out research in place of another official.
- The Chief Research Officer involved in this research went abroad for a Post Graduate Degree in mid of the year 2018. This Research is related to microorganisms and is also necessary to carry out this research with special knowledge and the research was temporarily suspended from mid-2018 as there were no research officers with specialized knowledge in that regard.
- When the officers in charge of the research project is changed, the research project should be implemented to prevent the disruption of the research project.
- (e) It had impossible to recover a sum of Rs. 28,588,853 in due to Board from 09 foreign scholarship recipients in overseas who had not reported to service during the period 1992–2014
- The cases are being carried out the Attorney General's Department to recover a sum of Rs. 28,588,853 receivable from 09
- Actions should be taken to recover the money by taking required measures promptly to complete

in accordance with the agreement . scholarship recipients who the case .
had not reported to service
and defaulted in paying of
Bonds in accordance with
the agreement during
period of 1992-2014 .

- (f) As per the Memorandum of Understanding signed for a period of 03 years for the research projects awarded to the Kotelawala Defense University and the University of Peradeniya, for a sum Rs. 989,601 and Rs. 2,156,153 respectively, although it was due to be settled by the end of 2017, the Management had not taken steps to settle those advances.
- The Memorandum of Understanding with the University of Peradeniya could not be completed in due time. The first phase of the study was designed to be carried out through surveys and an unexpected period of time was spent in selecting the appropriate sample. Therefore, this research could not be completed in the expected time and it is informed that since the results of this research can lead to the development of the coconut industry, the Memorandum of Understanding will be extended and the work will be continued as its completion is important. Therefore, action was not taken to settle the advance. The Research work on the Memorandum of Understanding with the Kotalawala Defense University has commenced and considering the importance of promoting the coconut industry through this research, the Memorandum of Understanding was not extended and therefore arrangements had not been made to settle the advance payment.
- Actions should be taken to complete the research project promptly during the period of Memorandum of Understanding.

- (g) A number 112 teak trees cut off in February 2018 belonging to the Ratmalaga Research Center which had an estimated value of Rs. 3,428,678 had remained decaying with unable to sell. There is a clear deed and plan for the Ratmalagara Estate. However, This situation has occurred since another registration number has been replaced instead of correct registration number of the deed. Actions should be taken against the officials who have decided to cut down trees before ascertain the ownership of the land.