

Head 431- State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended, 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. The summary report containing my comments and observations on the financial statements of the the State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification was issued to the Accounting officer on 31 May 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. As per Section 11 (2) of the Audit Act, the Detailed Annual Management Audit Report related to the State Ministry was issued to the Accounting Officer on 30 September 2022. This report will be tabled in Parliament in pursuance of Provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the State Ministry of Coconut, Kithul and Palmyrah Cultivation Promotion and Related Industrial Product Manufacturing and Export Diversification as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2. Basis for Opinion

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

1.3 Responsibility of the Chief Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Ministry 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 of the Ministry.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control of the Ministry exists and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of 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 summary 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:

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6(1)(d) of the National Audit Act, No.19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The Recommendations made by me on the financial statements of the preceding year had been implemented.

2. Financial Review

2.1 Management of Expenditure

The following observations are made .

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Out of the net provision totaling Rs. 128,653,500 allocated for 10 Objects in the year under review, sum of Rs. 48,651,121 or a percentage ranging from 20 to 85 per cent of the net allocated amount, had not been utilized in the year under review.</p>	<p>There is provision allocated for the operational activities of the staff of the Minister of this Ministry. Since the Ministry is in the early stages of operation, the approved cadre had not been completed by December 2020. Due to that reason, the operational expenditure had been decreased.</p>	<p>The total provision made should be utilized.</p>
<p>(b) Out of the net provision totaling Rs. 1,172,630,000 allocated for 07 Capital Objects, a sum of Rs.463,241,357 or a percentage ranging from 13 to 100 of the net allocated amount, had been saved.</p>	<p>No expenditure had to be incurred for the improvement of machinery, buildings and vehicles since this was a newly started Ministry. Due to the delaying of implementation of development activities owing to the Covid19 Pandemic prevailed in 2020, expenditure of those Objects had been decreased.</p>	<p>Action should be taken from the start of the year in accordance with the Action Plan to utilize the provision made for Capital Objects.</p>

- (c) A sum of Rs. 244,024,218 or 82 per cent had been saved of the supplementary provision totaling Rs. 400,000,000 made for the 03 projects: cultivation of coconut on commercial purpose in barren paddy fields, promotion of Kithul based products and diversification of indigenous Palmyrah industry in the year under review. Accordingly, the relevant activities could not be completed as planned within the year.
- A sum of Rs.248 million was allocated through the budget to the Coconut Cultivation Board for “Project for turning barren paddy fields in the island into productive commercial units”. A sum of Rs.148 million of this project had been refunded on 15 September 2021. Preliminary land investigations had been carried out following the obtaining of applications through the Coconut cultivation Board and although the same had been submitted to the Department of Agrarian Services seeking to obtain the approval for coconut cultivation, the required approval has not been granted for these lands. Provision had been allocated under this Object to the district offices for the promotion of Kithul products. Bills in hands valued at Rs.44.3 million had been saved due to the non-receipt of Advance. Therefore, the financial progress was at a reduced level. Incurring provision from Rs.200 million made for the indigenous Palmyrah industry, had been limited due to issues in the machinery used to manufacture Palmyrah products and land issues encountered.
- Action should be taken from the start of the year in terms of the Action Plan for the utilization of provision made for the supplementary Objects.

2.2 Non-compliances with Laws, Rules and Regulations

Reference to Laws, Rules, and Regulations, etc.	Value Rs.	Non- compliances	Comments of the Chief Accounting Officer	Recommendation
Paragraph 7.6 of State Accounts Circular No 03/2021 dated 26 November 2021.	1,910,325	Although the receipts and payments by cross entries of the Advances to Public Officers B Account should be included in the cash flow statement, payments by cross entries had not been included.	Receipts and payments could not be included by cross entries in the cash flow statement by mistake when stating the balances of the Advances to Public Officers B Account. Accordingly, it is accepted that the value of the receipts and payments by cross entries too should be added to the receipts and payments of the Advances to Public Officers B Account.	Cash flow Statement should be prepared correctly as per the State Account Circular.

3. Operating Review

3.1 Projects without Progress despite the release of Money

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) A sum of Rs. 17,690,000 had been given to the Coconut Cultivation Board out of the amount given for turning barren Paddy Fields into “productive commercial units”. The target here had to provide a cash allowance of Rs.80,000, a loan assistance of Rs. 150,000 per acre and also to provide coconut plants to 500 recipients representing 2,500 acres and 753 cultivators had forwarded applications to cultivate coconut in 959 acres. Although the approval for cultivating coconut in old paddy fields should have been given by the Agrarian Services Department, the project had not been implemented due to the non-granting of relevant approvals after inspecting the lands.	Preliminary land inquiries have been conducted for this project by obtaining applications through the Coconut Cultivation Board and although the same have been forwarded to the Agrarian Services Department seeking to obtain approval to cultivate coconut in barren paddy fields, no approval has been given in respect of those lands.	Projects should be planned considering the practicability of implementation.
(b) After selecting 5093 recipients from 70 Divisional Secretariats functioning under 11 District Secretariats, a sum of Rs. 65,487,500 had been given to 11 District Secretariats for the upliftment of Kithul industry with 08 projects. A sum of Rs. 28,403,882 had been incurred as at 31 December 2021 by the 11 District Secretariats and	This provision had been set aside for the promotion of Kithul products. Provision of the District Secretariats had been set aside for the promotion of Kithul products under this Object. Due to non receipt of Advance, bills in hand worth Rs. 44.3 million had been saved. Therefore,	Projects should be planned considering the practicability of implementation

although provision of Rs. 21,586,207 had been provided for the construction of 06 Kithul Products Marketing Centers in 05 districts, no such construction had been taken place.

financial progress was at a reduced level.

- (c) A sum of Rs. 86,320,000 had been given to the Palmyrah Development Board for the diversification of the indigenous Palmyrah industry and a sum of Rs. 22,000,000 had been given in cash to the Building Department for the construction of a building for the Palmyrah Development Board. 06 expected targets had included in the move for the diversification of the indigenous Palmyrah industry and a sum of Rs. 17,170,000 or 15 per cent had been incurred for 04 tasks alone : Palmyrah resource development, technical training, manufacturing Palmyrah based products and marketing Palmyrah based products. And also, the construction of the building for the Palmyrah Development Board had not been initiated until now.

Of the amount Rs.200 million allocated for the indigenous Palmyrah industry, incurring provision has been limited due to the defects prevailed in the machines for manufacturing Palmyrah products and land issues encountered.

When preparing estimates for the projects, provision should be requested only to be sufficient for the amount of work practically possible to carry out.