

Kithul Development Board - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kithul Development Board for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Coconut Development Act No. 46 of 1971 and the Finance Act No.38 of 1971. My comments and observations which I consider should be reported 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 Board as at 31 December 2022, 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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 scepticism 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 Company'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 Company'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 the Company to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Board , and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
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- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to relevant Standard	Comment Of the Management	Recommendation
According to paragraph 69 of Sri Lanka Public Sector Accounting Standard No.07, the necessary depreciation relating to furniture and fittings purchased by the Board in April 2022 at a total cost of Rs.378,891 had not been considered in the financial statements.	Accept. Since the year 2023, the Statement of Financial Position has been prepared.	The set of financial statements should be prepared in accordance with the standards.

1.5.2 Accounting Deficiencies

Audit Issue	Comment Of the Management	Recommendation
Although expenses amounting to Rs. 631,236 relating to December 2022 had been paid in the year 2023, provisions for that had not been made in the financial statements of the year 2022.	Accept. The necessary adjustments relevant to the accounts of the year 2023 have been made.	Adjustments to expenses should be made in a timely manner.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment Of the Management	Recommendation
(a)	The Public Enterprises Circular No. 01/2021 dated 16 November 2021 issued by the Secretary to the Treasury, together with the Guidelines on Institutional Good Governance issued in conformity therewith.	Although a strategic plan had been prepared for the years 2022 and 2024, in terms of the Circular, key performance indicators for evaluating the final outcomes of business activities had not been identified, and summarized projected financial statements for the period covered by the plan had also not been included. Further, approval of the relevant Secretary to the Ministry for the strategic plan had not been obtained in accordance with the Circular.	The Board has prepared a consolidated plan for the period 2022–2024. However, the approval of the line Ministry Secretary has not been obtained for the said plan.	The strategic plan should be prepared and approved in accordance with the referenced Circular.
(b)	Paragraph 6.6 of the Public Enterprises Circular No. PED 01/2021 dated 16 November 2021.	Although financial statements and drafted annual reports should be submitted to the Auditor General within 60 days of the end of the financial year, the accounts for the year 2022 were submitted for audit only on 20 March 2025, resulting in a delay of 2 years.	There was a delay in rectifying the deficiencies in the financial statements and obtaining the approval of the Board of Directors.	Financial statements and drafted annual reports should be submitted for audit by the prescribed date.

2. Operational Review

Performance

Audit Issue	Comment Of the Management	Recommendation
(a) According to the Extraordinary Gazette dated 17 March 2021 regarding the establishment of the Kitul Development Board, necessary actions have not yet been taken to carry out the functions expected of the Board, including providing support, promoting, and formalizing Kitul cultivation on the designated lands; facilitating proper animal husbandry on lands where Kitul is cultivated; popularizing and promoting the cultivation of coconuts and other crops in Kitul plantations; and producing Kitul products as well as providing support and promotion in this regard.	Due to the presence of only a minimum staff, it has not been possible to take measures to carry out all the functions expected by the Gazette.	Necessary steps should be taken to implement the functions required to achieve the primary objectives of establishing the Kitul Development Board.
(b) During the year 2022, an allocation of Rs. 8,550,000 had been made for activities such as providing financial support to 20 Kitul entrepreneurs to obtain GMP and SLS certificates and promote the relevant technologies and products in the international market, and for developing nursery to increase the number of Kitul trees in the country and convert them into a commercial operation. However, the project had not been implemented, and Rs. 7,750,000, or 90 percent of that amount, remained unutilized.	The project has not been implemented due to the lack of an adequate staff. Although nursery owners were informed to obtain suitable seed varieties, it was not possible to develop nursery to increase the number of Kitul trees and convert them into a commercial operation, as it was difficult to locate flowers during the off-season.	The possibility of implementing the project should be studied through a basic feasibility study for the plan project and activities and the steps should be taken to allocate the provision accordingly

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| <p>(c) According to the 2022 action plan, an allocation of Rs. 17,000,000 had been made for two activities such as introducing a life insurance scheme for Kitul producers and establishing a new market. However, no actions had been taken in this regard, and the expected model Kitul producers had not been established in 2023.</p> | <p>The project has not been implemented due to insufficient funds and the failure to appoint an adequate staff. Furthermore, projects that have not yet been initiated or have not achieved results have not been temporarily suspended in accordance with the instructions issued under the National Budget Circular 3/2022. In addition, it was not possible to find a suitable land for the model Kitul cultivation project.</p> | <p>Progress should be maintained at an optimal level through effective preparation and amendments of annual plans.</p> |
| <p>(d) A program, including the presentation of the future direction of the Kitul Development Board and several other activities related to Kitul development, was conducted in Galle on 29 September 2022, incurring an expenditure of Rs. 4,052,850. However, by the end of the review year, the Board's activities had not been extended to the regional level, nor had Kitul farmer societies been established. Consequently, the program did not make a measurable contribution to enhancing the productivity of the institution.</p> | <p>Since the Kitul Development Board was established in 2021, a key task was to identify Kitul farmers at the regional level, provide necessary facilities, and extend the Board's activities to the regions. Conducting this program was essential, as it served as a foundation for establishing a data system necessary for planning the Board's future activities and laying the groundwork for development in the field.</p> | <p>Programs should be planned and implemented in a manner that can enhance the productivity of the Kitul Development Board.</p> |

3. Staff Administration

Audit Issue	Comment Of the Management	Recommendation
Within the approved staff of the Kitul Development Board, the internal auditor position, 15 research and development assistant positions, and 9 management assistant positions remained vacant by the end of the review year and since the duties of the General Manager and 4 Assistant/Deputy Manager posts were being performed by acting officers, the Board had not taken steps to recruit officers for essential posts.	The Board was established in 2021, and subsequently, due to the circulars issued by the Ministry of Finance from time to time to limit the public expenditure; recruitment could not be carried out by the end of 2022. Based on the approval granted on 22 November 2023, five management assistant officers (non-technical) were recruited by the year 2024.	Recruitment should be carried out without delay for the essential positions required to ensure the proper functioning of the Board.