

## **Coconut Development Authority - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Coconut Development Authority for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 Coconut Development Act No.46 of 1971, National Audit Act No.19 of 2018 and Finance 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 positions of the Authority as at 31 December 2024 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Audit Scope (Auditor's Responsibilities 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 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 Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;

- Whether the Authority 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 Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standard

Audit Issue	Management Comment	Recommendation
<p>The authority had not taken actions to disclose the amount of Rs. 2,096,164 in respect of property, plant and equipment whose useful life has expired or, in accordance with Section 65 of Sri Lanka Public Sector Accounting Standard No. 07, review the residual value of an asset and the useful life thereof, at the end of each annual reporting period and although the difference should be accounted as a change in an accounting estimate in accordance with Sri Lanka Public Sector Accounting Standard No. 03 – “Accounting Policies, Changes in Accounting Estimates and Errors” if the expected conditions differ from the estimates, the authority had not done so.</p>	<p>Actions will be taken to appoint a committee in 2025 to conduct a revaluation.</p>	<p>Actions should be taken to follow Sri Lanka Public Sector Accounting Standards.</p>

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The amount of Rs. 5,241,800 paid in 2025 for the 60th anniversary celebration of the International Coconut Community held in 2024 had not been accrued as an expenditure in the year under review.</p>	<p>Since there were no provisions in the approved action plan for the year 2024, a notice had been sent to the Secretary of the Ministry on 2025-01-02 to submit a paper of Board of Directors in this regard and provide the relevant information in detail to obtain approval.</p> <p>The letter related to the Cabinet decision was issued on 08-01-2025 and received by the Authority on 16-01-2025.</p> <p>The final accounts for the year ended 31 - 12- 2024 had been prepared by 16-01-2025 and the financial progress report as at 31- 12-2024 had also been sent to the Ministry.</p>	<p>Since events after the balance sheet date should be taken into account in preparing the accounts, specifically identified expenses should be adjusted in the financial statements.</p>

- (b) Since the Authority had not submitted a statement of expenditure and relevant bills related to the expenditure of Rs. 7,000,000 provided to the Ministry on 7 August 2024 for the 60th Anniversary Session of the International Coconut Community, the accuracy of the expenditure could not be verified. Although a detailed expenditure report related to the payments has been forwarded to the Ministry on 02-01-2025 to be provided to the Coconut Development Authority, any response has not been provided as at 29-04-2025. Proof of payments should be submitted.
- (c) Although the unidentified deposit balance of Rs. 2,833,390 as at 31 December 2023 had been considered as an identified balance by the Authority in the year under review and accounted for the year, the accuracy of the accounting entries could not be verified during the audit as the relevant details were not submitted for audit. Although there was an amount of Rs. 2,833,390/- as unidentified deposits as at 31-12-2023, out of that amount, Rs. 1,340,510/- has been identified by the relevant depositors and invoices have been issued and accounted. However, out of this amount, Rs. 1,492,880.53 has not been identified as at 31-12-2024. Income adjustments should not be made without specific identification.
- (d) The interest of Rs. 312,625 for the year accumulated on the electricity deposit of Rs. 1,250,000 had not been recognized and accounted as income. The Electricity Board has commenced the payment of interest on deposits made for electricity connections from April 2024. Steps will be taken to show the relevant interest on these deposits separately from 2025. Actions should be taken to account the electricity deposit and calculate and include the annual interest to the annual income and offset expenditure and income.
- (e) Although property, plant and equipment value of Rs. 2,524,897 received as donations in the year 2023 had been accounted in the year 2024, the accumulated depreciation balance had been understated due to the depreciation amounting to Rs. 252,490 relating to the year 2023 not being accounted. Steps will be taken to account these depreciation adjustments as preceding year adjustments in the final financial report prepared for the year ended 31-12-2025. Depreciation provisions for property, plant and equipment received as donations in 2023 should be recorded under the preceding year adjustments.
- (f) The retirement gratuity value of Rs. 290,460 payable to an officer had not been accounted. Steps will be taken to account this difference of Rs. 290,460 as adjustments to the preceding year when preparing the final accounts for 2025. Actions should be taken to account the expenditures accurately.
- (g) Although the amount due to the Authority from two officers who Steps will be taken to account for this difference of Rs. 208,951 as adjustments to Actions should be taken to account the

left the service as at 31 December the preceding year when preparing the final expenditures accurately. 2024 was Rs. 400,506 and as it was accounts for 2025. recorded as Rs. 191,555, value receivable had been understated by Rs. 208,951.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 33 (4) of the Coconut Development Act, No. 46 of 1971	Although the Authority may make regulations regarding all matters necessary for the imposition, collection, implementation and payment of cess on coconut, any regulations have not been made in this regard to date. Despite this, a fund had been created from the revenue received from cess tax and the exported coconuts. At the end of the year under review, there was a balance of Rs. 44,544,351 in 58 accounts in the name of mill owners and from the year 2019 to the year 2024, an amount of Rs. 12,442,516 had been refunded to the mill owners from those accounts.	It has been informed that the new fund will be established with effect from 01.07.1987 with the aim of merging the two funds, the Disidi Coconut Factory Development Fund and the Employee Relief Wage Fund, and thereby providing opportunities for meaningful incentives to producers. Further, any information has not been found in the Authority's old documents regarding the legal provision establishing this fund, which was established about 40 years ago."	Expenses should not be incurred without making the necessary orders.
(b) Section 20 (A) of the Coconut Development Act No. 46 of 1971	Although the Authority can regulate and maintain the quality standards of coconut products manufactured in Sri Lanka or exported from Sri Lanka, the Authority had not taken steps to formulate the necessary legal measures to protect the quality of coconut oil offered to the local market without packaging. According to the annual report for the year under review, coconut	Answers had not been provided.	Legislation should be enacted to prevent unpackaged coconut oil from entering the market.

oil sold in rural areas outside urban areas had been warned about the presence of aflatoxins due to lack of regulation. Attention had not been paid to this matter and although legal action could have been taken through an order to prevent unpackaged coconut oil from entering the market, the Authority had not acted accordingly.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 184,152,635 and the corresponding surplus in the preceding year amounted to Rs. 170,788,322. Therefore an improvement amounting to Rs. 13,364,313 of the financial result was observed. The reasons for the improvement are due to an increase in laboratory income, fresh coconut field testing and processing fee income and container testing income of Rs. 21,581,805, Rs. 29,648,650, and Rs. 4,290,386 respectively in the year under review compared to the preceding year and a decrease in capital development expenses in the Quality Control and Quality Assurance Division by Rs. 3,628,715.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although a fund had been established to stabilize the price of coconut products released to the market due to the fluctuation in the price of coconut products, it was not observed that a statutory order had been issued to establish such a fund. According to the financial statements as at 31 December in the year under review, the balance of this fund was Rs. 439,620,170 and the primary objective of establishing the fund had not been implemented to date.	The Authority does not have written information regarding the inception of this fund. Instructions were given to form a committee to study this matter and provide a committee decision at the meeting of the Ministry's Audit and Management Committee. The Board of Directors has instructed that three senior management officers of the Authority, an officer from the Ministry of Plantations and an officer from the Treasury be appointed to this committee to carry out the further work. The committee is scheduled to meet and announce its decision on this matter after nominating an officer from the Treasury.	Actions should be taken to establish the Fund according to statutory provisions.
(b) During the Temporary Import for Export Process (TEIP), the Authority	During the re-export process, samples are taken by an inspector from the Production	Laboratory services should be expanded to

conducts a sample inspection during re-export with added value and the re-export process had been completed before the laboratory test reports were provided. The Authority had granted approval for the re-export of 3,525,648 kilograms of four products, namely crude coconut oil, RBD, coconut sugar and coconut water, prior to receiving the inspection reports up to 2 December

of the year under review. 164 such tests had been conducted during the year under review and the time taken for the submission of the reports was between 1 and 3 months. It was observed that there was a risk of public confidence in coconut production being undermined by allowing re-exports before the laboratory reports were provided.

Authority for re-export of these stocks that are brought into the country and sent for laboratory testing and it takes a certain period of time to issue the results for those samples. While the relevant exporter has to incur costs in retaining the goods in the country until the laboratory results related to the relevant export are released, there is also the possibility of the exporter losing buyers if the exports cannot be made on the specified date.

Therefore, the Coconut Development Authority considers the previous export reports of exporters and, in accordance with that image (Green Channel Concept), considers the convenience of the exporter and the export revenue generated by it to the country and issues No Objection Letters for re-export before issuing laboratory reports. No objection. Even if a No Objection Letter is issued, it is essential to obtain samples. If there is any problem in the analysis reports, the export of containers exported by that institution will be permitted only based on the analysis results in future.

expedite laboratory services so that laboratory reports can be received before export and to provide services 24 hours a day.

- (c) As per clause 3.3 of the Memorandum of Understanding entered into by the Authority with the Regional Development Bank for the implementation of the Kapruka Jaya Isura Loan Scheme, the maximum limit of the Working Credit Account is limited to Rs. 10 million and although the excess amount should be transferred to the Fixed Deposit Account and although there was a balance of Rs. 30,888,823 in the Working Credit Account as on 31 December of the year under review, the Authority had not taken steps to invest the excess amount of Rs. 20,888,823 in Fixed Deposits.
- Letters signed by the Chairman of the Authority, Director General and Director (Finance) should be provided to the relevant bank to release the loan amount to the bank for the loan applicants under the Kapruka Jaya Isura Loan Scheme. Since the post of Director General has been vacant since May 2024, these letters could not be sent to the bank. However, with the appointment of the new Chairman, the relevant letters were sent to the Regional Development Bank in December 2024, signed by the Chairman and Director (Finance). The value thereof was Rs. 30.3 million. Therefore, the relevant funds were not invested in fixed deposits.
- Management should take steps to re-nominate the officers authorized to sign with becoming the positions vacant.
- (d) Most of the fruit-bearing trees in the coconut plantations of Dunkannawa Estate had been affected by whitefly
- We promptly implemented the chemical control method recommended by the Coconut Research Institute in 2022 to
- Urgent steps should be taken to control whitefly disease.

damage by 30 November 2024 and identify and control the whitefly damage at this disease was first identified in an early stage. Similarly, measures were taken to control the whitefly in 2023. It is not possible to test the success of using chemicals in a few days. Some studies should be conducted on the population density. It was observed that whitefly damage is difficult to control with chemicals. Further, continuous application of chemicals to the field is very harmful and the application of substances such as cohomba oil to tall trees is practically not possible.

The only option for this is to use parasiticide packets. According to the results of those studies, letters have already been sent to the relevant institutions to obtain parasiticide packets. Apart from the above methods, any other method has not been recommended so far. Any successful method has not been found to control whiteflies.

(e). Although the Committee on Public Enterprises held on 6 July 2023 ordered the implementation of 07 recommendations for the Authority, the following 5 orders had not been implemented to date.

(i) Preparing and taking necessary steps to implement a concrete plan for the export of coconut husks for a 50 billion tree plantation project in Saudi Arabia.	5,703 MT have been exported from 2019 to 2024.	Action should be taken to implement the recommendations of the Committee on Public Enterprises.
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(ii) Taking steps to raise awareness about current issues in coconut cultivation through a television program.	The Sri Lanka Rupavahini Corporation had allocated airtime for 18 programs in this regard and forwarded the TV Schedule to the Coconut Development Authority on 20.01.2025. The Coconut Development Authority had informed the television of the activities to be carried out in those programs and the details of the participating officers and had planned to carry out the same from 17.02.2025.	Action should be taken to implement the recommendations of the Committee on Public Enterprises.
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The relevant detailed report prepared by the Coconut Development Authority, giving

approval in this regard, has been forwarded to the Chairman of the Television Corporation on 13.02.2025. However, it has been verbally informed that the planned broadcast time frames have been changed due to unavoidable reasons and it has been stated that the new time frame will be submitted to the Coconut Development Authority.

The program time frame was once again sent to the Coconut Development Authority on 21.02.2025 regarding this and a letter was sent to the Rupavahini Corporation, but no response has been received so far.

Arrangements are being made to hold a discussion with the Secretary to the Ministry of Mass Media regarding this situation.

- (iii) Submitting a report on the Dunkannawa Coir Development and Training Center to the Committee on Public Enterprises within a month
- Although the National Engineering Research and Development Center had provided an assessment report for the machines and since any recommendations were not made in the report, a committee has been appointed by a decision of the Board of Directors to obtain recommendations.
- Action should be taken to implement the recommendations of the Committee on Public Enterprises.
- (iv) Discussing health issues related to the import of low-quality coconut oil with the Coconut Development Authority, Consumer Affairs Authority, Ministry of Health, Department of Trade and Investment Policy and Department of Import and Export Control.
- The powers to inspect coconut oil have been granted by Cabinet approval on 27.08.2024. A regulation in this regard has been drafted and forwarded to the Attorney General.
- Action should be taken to implement the recommendations of the Committee on Public Enterprises.
- (v) Establishing an online bidding system and reporting progress to the Committee on Public Enterprises within 3 months.
- A letter has been sent to Prof.N.D. Gunawardena, the Vice Chancellor of the University of Moratuwa, on 28.07.2023 to update the software prepared for the coconut auction as per the recommendations of the COPE Committee. Although it has been verbally informed that a date will be fixed in the future and a discussion will be held, since that did not happen, a letter has been sent to the Vice Chancellor of the university again on 12.10.2023.
- Action should be taken to implement the recommendations of the Committee on Public Enterprises.

- (f) As at 31 December of the year under review, 4 senior management level posts, 03 middle management level posts and 06 junior management level posts were vacant in the Coconut Development Authority. These posts had been appointed to perform/act on duty until November 2024 without recruitment.
- Director General- Actions have been taken to direct as per the instructions of the Management Services Department.
- The Director Administration- Due to the lack of qualified applicants, the Ministry has directed to re-publish the advertisement and recruit as per the instructions.
- The Director (Planning and Development)- Management Services Department has been directed to submit the application for approval by the Board of Directors.
- Director of Marketing (International) – Actions are being taken to suppress this position.
- Middle Management Level Positions - Ministry approval has been sought to fill the vacancies.
- 6 Junior Management Positions - Ministry approval has been sought to fill the vacancies.
- Actions should be taken to obtain the approval of the Department of Management Services for filling vacancies in the Authority's posts and fill the essential vacancies.
- (g) There was a loan balance of Rs. 715,821 owed to the Authority by three officers who had resigned in the year 2024 and the Authority had approved the resignation of those officers without settling it.
- Ms. Thanuja Subhashini has been considered to have left the service due to non-reporting to work and the said lady has not yet received the gratuity entitling to her. Accordingly, Actions are to be taken to recover the loans taken by the said lady from the relevant gratuity.
- Mrs. Omeshani Gamage has agreed to pay Rs. 10,000/- in installments from the balance of the distress loan obtained from the Authority and Rs. 10,000/- has been paid to the Authority in April 2025. Mr. Roshan Somarathne has resigned from the service and he has requested that the amount due by him be deducted from the gratuity amount due to him and accordingly, the loan amount has been reduced up to the gratuity amount.
- Actions should be taken to recover the loan balance before withdrawing the gratuity.
- (h) Although an account had been opened on 23 November 2022 by depositing Rs.25,000 with Seylan Bank as per the decision of the Board of Directors No.603/09 and dated 25 May 2022 to make payments to the Authority by coconut-based industries through the Payment Gateway, the accounts remained underutilized as any
- The payment gateway planned to be implemented through Seylan Bank was not implemented and arrangements have been made to implement this through People's Bank in 2025. The Board of Directors has approved the closure of the Seylan Bank account.
- Actions should be taken to activate dormant bank accounts..

transactions had not been made through it even by the end of the year under review.

### 3.2 Idle or Underutilized Property Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>(a) The Authority had spent Rs. 4,869,826 on the establishment of the Business Service Centre, which was established on the Authority's 1,162 sq. ft. ground floor. Although the Authority had planned to operate the centre through 5 units including a call centre unit to resolve customer issues over the phone, a customer care unit to identify foreign customers by introducing Diamond, Platinum, Gold and Silver membership cards to provide better service to customers, a marketing intelligence unit to provide local and international coconut-related data to customers, an information technology unit to provide and collect information in the quality assurance, processing development and marketing sectors and a planning unit to plan all the activities of this centre, none of the above-mentioned tasks had been carried out in the year under review.</p>	<p>It is expected that the NCCI institute proposed to be established by the Coconut Related Products and Export Associations will be provided on a monthly rental basis.</p>	<p>The governing authority should take actions to implement the project as planned without it becoming an unnecessary expenditure.</p>
<p>(b) Even though the Dunkannawa Coir Development and Training Center was established in 2006 as a training center to develop the coir industry, it was observed that not a single training course had been conducted in 2023, 14 out of the 18 machines in the factory were inoperative and the machines that were operational were in need of repair. Therefore, the objectives of establishing the training center were not being achieved and all the existing assets were lying idle.</p>	<p>The machinery in the Dunkannawa Coir Research Institute, which is in a non-functional condition, has been assessed by an officer of the NERD Institute. Continuous follow-up has been carried out in this regard. It has been informed that the assessment report is being prepared and can be provided by the last week of this month. Action is to be taken as per the recommendations of the relevant report.</p>	<p>Although a recommendation in this regard was made at the Committee on public Enterprises Committee, it is necessary to be enthusiastic about taking action as a lengthy procedure has to be followed.</p>

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
(a) The Coconut Development Authority and the Regional Development Bank had entered into a Memorandum of Understanding on 21 November 2024 to provide loans at a concessional interest rate for the installation of solar panel systems to export-oriented coconut-based manufacturing industries. Although 13 registered applicants had been selected for this, any loans had not been disbursed as at 17 April 2025, the audited date.	The letter of introduction of the industrialists will be sent to the Regional Development Bank's head office in accordance with Article 11 of the Memorandum of Understanding. Namely, <ul style="list-style-type: none"><li>● Fulfilling the security documents and other requirements of the borrowers currently followed by the bank.</li><li>● Checking the blacklists of the borrowers.</li><li>● Taking legal steps related to debt recovery.</li></ul> After carrying out the above activities, it has been informed that the authority will be informed before releasing the loan amount.	Actions should be taken to identify a limit on the implementation of the loan scheme and remove the limits under essential circumstances.
(b) Although Rs. 112,550,000 in loans had been issued under the Kapruka Loan Scheme in the year 2023 and as the amount of loans issued in the year under review was Rs. 58,658,000 there was a decrease of 48% in loan issuance.	Among these applications, applicants requesting loans for starting new and industries were rejected. The committee related to the Kapruka Jaya Isura Loan Scheme gave priority to the establishment of machinery in providing loans to coconut oil industries with the release of toxic coconut oil into the market. Further, since the amount to be maintained in the account had exceeded the 200 million Rupees, it was necessary to temporarily suspend the provision of loans for several months (from September 2024 to February 2025). During this period, providing loans were resumed as the amount in the account increased due to the installments paid by the industrialists.	The Authority should formulate and implement efficient strategies to provide loans to industrialists and recover those loans.