

## **Provident Fund of Coconut Cultivation Board - 2019**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Provident Fund of Coconut Cultivation Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity, statement of cash flows 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 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 financial statements give a true and fair view of the financial position of the Commission as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

I express a qualified on the financial statements 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

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

## 1.4 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 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 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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 particular Standard	Management Comment	Recommendation
(a) According to paragraph 16 of Sri Lanka Public Sector Accounting Standards 03, although financial statements should be prepared on accrual basis, in contrary to that, it was stated through a notes to the financial statements that the financial statements in the year under review were prepared by the Fund on the cash basis.	The final accounts of 2019 were prepared in the year 2022. Due to non-maintenance of documents (source documents) and deliberate manipulation and maintenance of documents due to fraud, it has not been possible to prepare accounts on accrual basis due to inclusion of fraudulent cheques in the source documents.	Financial statements should be prepared on accrual basis as per the Standard.
(b) As revealed during the audit, out of the dividend payables paid in the year 2019, Rs.106,453 were paid to an employee of the entity and a person who was not a member of the fund and it was also confirmed according to the bank confirmation.	Although the name of this employee is recorded as W.G.B. Dissanayake in relation to membership number 0881 and salary number 607, according to the letter submitted to the bank to confirm the payee, it has been confirmed that the cheque was paid in the name of W.M.B.W.G Bandara.	The fund should pay the prescribed amount to the prescribed persons.
(c) Fixed deposits of Rs.554,328,418 maturing in less than 12 months were not disclosed under current assets in the statement of financial position, in	Total investments in the fund are presented under investments. As these investments mature over	According to the standard, line items in the statement of financial position

non-compliance with the paragraph 76 different periods, they should be presented (c) of Sri Lanka Public Sector were stated under fixed correctly. Accounting Standards 01. Also, assets as an aggregate. appropriate adjustments were not made for losses for prior years.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Since an amount of Rs. 46,134,961 was defrauded by the loan, advance and grant payment accounts of the fund from the year 2012 to the year 2018 and due to insufficient books and documents being maintained for the fund, the audit could not satisfy on the accuracy of the opening balances of the member fund and member loan account in the financial statements of the year 2019.	The amount of money defrauded in the fund from the year 2012-2018 has been Rs. 46,134,961.	Sufficient accurate books and records for the fund should be maintained up to date and information required to ascertain the opening balances should be submitted to the audit.
(b) Although the member loan balance of the fund was Rs.187,411,950 according to the statement of financial position in the year under review, as the balance was Rs. 174,616,519 according to the debtor register and age analysis presented with the financial statements, it was observed the difference of Rs.12,795,431 between the balance as per financial statements and balance as per register and, it was observed that collection of these loans was problematic.	When all loans and advances are adjusted in the year 2019, the loan balance as at 31 December 2019 was calculated as Rs.187,411,950. However, the actual recoverable loan balance as at 31 December 2019 has been Rs.174,616,519 by checking the payroll and loan ledger.	Proper steps should be taken to maintain accurate and up-to-date member loan register and timely collection of all loans.
(c) The operational manual had not been prepared for the fund and due to the fact such as non-maintenance of books and records of the fund in a manner	By now, the deficiencies have been corrected and prepared in a formal manner using the relevant method.	An operational manual should be prepared for the fund and arrangements should be made to

in accordance with accounting principles, payment on incomplete vouchers, not getting signatures or receipts for grants and loans paid to members, non-updating of cheque book register and non-preparation of internal circulars to operate the fund, it was observed during the audit that the financial management and internal control of the fund was in a weak condition.

carry out the activities of the fund accordingly.

- (d) According to the information submitted to the audit by the fund, it was revealed in the year 2021 that the defrauded amount by the accountant of the Coconut Cultivation Board, who was the secretary of the fund, gave money to 13 people including family members who are not members of the fund through checks as loans, contribution advances and retirement benefits by 31 December 2021 was Rs.77,727,691. Out of which Rs.46,134,961 had been made during the period from 2012 to 2018 and the value of such fraudulent payments made in the year 2019 was Rs.12,894,143. Accordingly, the identified losses for the year under review were deducted from the member's fund as the amount defrauded in the statement of financial position instead of being adjusted to the income expenditure account. Also, there was no disclosure in the financial statements regarding the action taken against the fraud. Furthermore, any adjustment had not been made to the financial statements on the
- Although this amount has been identified as a defrauded amount through the report of the committee of senior officials of the ministry, since the legal proceedings have not yet been completed, this amount has not been confirmed by the Governing Council as a permanent loss and adjusted to the accounts.
- The provident fund of the employees of the board should be administered accurately and properly and should be accounted accurately for in case of fraud.

amount of Rs.46,134,961 which was disclosed up to 31 December 2018 in relation to the fraud.

### 1.5.3 Going Concern of the Fund

Audit Issue	Management Comment	Recommendation
According to a decision taken by the consensus of all the members in the general meeting of the Fund held on 21 January 2022, it was decided to send the contributions of the month of members to the Central Bank from January 2022. Accordingly, though there was sufficient uncertainty on the going concern of the Fund, it was not disclosed in the notes to the financial statements for that.	The fraud was revealed in March 2021 and as per a decision taken in the General Meeting held on 21 January 2022, the contributions of members were sent to the Central Bank from January 2022.	The financial statements should disclose the uncertainty of the going concern of the Fund.

### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Fund had paid Rs.13,007,314, Rs.1,830,884 and Rs.1,500,000 through 13 vouchers for loans, contribution advances and pension benefits respectively during the year under review, but those payment vouchers were not submitted for audit. Out of which, it was observed that the payment of pension benefits and contribution advance amounting to Rs.12,894,143 were the	16,338,198	Vouchers	According to the final accounts, the total advance payment which can be assured was Rs.14,390,000 but including the cheques which have been defrauded in the cash book is Rs.15,890,000. But the actual advance amount was Rs.14,390,000. As a result, Rs.1,500,000 has been over-recorded as per the cash book. Vouchers for the	Vouchers related to all payments of the fund should be submitted for audit.

vouchers related to the fraud.

false cheques were not filed by the fraudsters.

- (b) An up-to-date register was not maintained regarding the fixed deposits of Rs.196,101,000 at the end of the year under review and only a schedule was prepared in relation to the fixed deposits prevailed as per the financial statements through the monthly bank statements. Due to this, during the year, it was not possible to obtain a material confirmation about the correctness of fixed deposit withdrawals, reinvestments and investment interest percentages etc. during the audit.
- 196,101,000 Updated Fixed Deposits registers
- Although the Provident Fund Secretary has maintained a register for fixed deposits, it has not been properly recorded and updated. Also notes are not used after 2019.
- Fixed deposit registers and related schedules should be properly maintained and updated registers should be submitted for audit.
- (c) Although there was a surplus of Rs.56,292,647 in the fund for the year 2019, income tax was not calculated or paid in the financial statements and in the year under review, no supporting document was submitted to the audit except the payment voucher regarding the income tax of Rs.5,811,833 paid in relation to the previous year.
- 5,811,833 Supporting documents related to the payment of income taxes
- Income tax accrued in 2018 was paid in 2019 and its cheque cleared only during this year.
- Supporting documents related to payment vouchers should be submitted for audit.

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| (d) | The balance of the current account maintained for the investment portfolio of the Bank of Ceylon No. 82500659 as per the statement of financial position as on 31 December 2019, was Rs.11,016, but a cash book and bank statements related to this current account were not submitted for audit and according to the bank statements, the balance at the end of the year under review was Rs.9,259. | Bank<br>reconciliation | Two<br>investment<br>portfolio<br>management<br>have<br>been opened at the<br>head office of Bank<br>of Ceylon. No<br>transactions have<br>been made by its<br>cheques. These<br>balances are on the<br>initial deposit and<br>only the money in<br>the investment<br>portfolio has been<br>transacted. | The reconciliation<br>should be made<br>through bank<br>reconciliation<br>statements relating to<br>the current account and<br>the cash book. |
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**1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Section 27 (3) of the Employees' Provident Fund Act No. 15 of 1958 and Section 6(II) of the Coconut Cultivation Board Provident Fund Constitution approved by the Department of Labor on 02 May 1973	The statutes or orders governing an approved provident fund shall not be altered except with the written consent of the Commissioner, and it should be acted accordingly on decision of the majority of the governing council regarding all matters relating to the management of the fund, and in respect of any matter or thing for which orders have not been made after obtaining coverage approval from the Commissioner of Labor and Commissioner of Inland Revenue. Nevertheless, it was implemented for the	In the year 2019 and previous years, the violation of giving advance only two times has been done, but currently the fund will not give advance more than two times.	Payment of advances should be made in accordance with the constitution of the fund.



decision taken by the committee council held on 19 June 2008 to pay the advance on two occasions, once after the members reach the age of 55 years, and again after 2 ½ years i.e. when they reach the age of 57 ½ years, without obtaining the covering approval of the Labor Commissioner and the Commissioner of Inland Revenue and without amending the constitution. Accordingly, advances of Rs.15,890,000 were paid for 19 officers in the year under review.

(b) Coconut Cultivation Board Provident Fund Constitution approved by the Department of Labor on 02 May 1973

(i) Section 5

<p>The affairs of the funds shall be governed by a Governing Committee consisting of three members and two members shall constitute a quorum for a Governing Committee meeting. However, it was observed that this Governing Committee did not meet from 2015 to 2020. Accordingly, the Governing Committee's approval was not given for the pension loans and advances paid in those years.</p>	<p>Although there were no records in the minutes of the meeting of the Governing Committee, two representatives of the Governing Committee have signed the respective cheques when issuing each cheque. However, at present every payment will be made by keeping the relevant records of the Governing Committee meetings and</p>	<p>Conduct of meetings and payment of pension grant loans and advances should be in accordance with the constitution of the fund and minutes of meetings shall be duly maintained.</p>
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releasing the money.

(ii) Section 28

The accounts of the fund to be prepared for each calendar year shall be audited once every twelve months by an auditor approved by the Labor Commissioner. However, until 2018, the approvals obtained from the Labor Commissioner for the appointment of audit agencies that audited the fund's accounts were not submitted to the audit.

The current governing committee of the fund has taken disciplinary and legal action against the previous officials.

Accordingly, the officials in charge of the subject files, including the secretary who performed the official duties at that time, have been remanded in custody. None of those documents have been found.

The accounts of the fund shall be audited by an auditor approved by the Labor Commissioner in accordance with the provisions of the said Act.

(iii) Section 29

Although the committee should convene a meeting of members once in every calendar year, the fund had not held members' meetings for the years 2019, 2020 and 2021.

The last meeting of the members was held by the then governing committee in November 2019 and the invitation letter has been submitted herewith. After that, after the fraud was discovered, the current governing committee has arranged to hold general meetings for the years 2022 and 2023.

Meetings of members should be held in accordance with the constitution of the fund.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.56,292,647 and the corresponding surplus in the preceding year amounted to Rs. 54,955,892. Therefore, an improvement amounting to Rs.1,336,755 of the financial result was observed. The reason for the improvement was non-accounting of income tax provision in the year under review.

## 3. Operational Review

### 3.1 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>(a) Five employees of the entity had been dismissed by taking disciplinary action against them for fraud as of 31` December 2023. According to the information submitted to the audit about taking legal action in this regard, although letters were sent to the Attorney General's Department informing about the proceedings on 7 occasions such as 19 April 2021, 12 May 2021, 07 June 2021, 11 November 2021, 08 December 2021, 27 January 2022, 24 May 2023, it was observed that the first response by the Attorney General's Department was made on 26 June 2023. 06 cases assigned against 06 related officials in the Kaduwela District Court were also withdrawn in August 2023, on the basis of re-filing as per the verbal instructions of the Attorney General's Department. Thus, even though civil cases should have been filed against the concerned persons with the assistance of the Attorney General's Department to recover the loss to the fund due to the fraud, it was observed that such cases had not been filed till 31 December 2023.</p> <p>Furthermore, no legal action had been taken until 31 December 2023 in relation to 7 Chainmen of the fund and 7 General Managers who had been appointed on a working and secondary</p>	<p>The Attorney General's Department has done the legal work to file cases by now.</p>	<p>Legal action should be taken against the officials responsible for the fraud and actions should also be made to recover the defrauded money.</p>

basis, who were the second signatories on the cheques for the payment of the fund during the period of 2012 to 2021 that the fraud was occurred.

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| (b) | Although it has been lapsed more than 2 years as of 30 November 2023 by identifying the fraud initially and making complaint in Criminal Investigation Department, no criminal cases have been filed against the accused.   | The board has complained about this incident to the Criminal Investigation Department on 24 September 2021. They reported the facts to the Kaduwela Magistrate's Court through a "B" report and conduct an investigation. Although more than 02 years have been lapsed, the investigations have not been ended. | Legal action should be taken against the officials responsible for the fraud promptly and actions should also be made to recover the defrauded money. |
| (c) | When paying grant of Rs.263,860 to an employee of the fund in the year 2019, the payment was made through a cash cheque without issuing a cheque in the name of the employee.   | According to the letter submitted to the bank to verify the payee related to this payment, it has been given to us without noting the payee.  | Membership grants must be securely paid through crossed-cheques.  |
| (d) | There was no assignment and division of work regarding the financial and other transactions of the fund and the members of the governing committee had signed the cheques of the employees' provident fund and the accountant of the board who was directly involved in the financial fraud who was the secretary of the fund had also certified the vouchers related to the fund's payment activities. | The deficiencies have been corrected and formalized in the relevant method by now.  | Internal control should be strengthened by streamlining the financial and operational administration of the fund.                                     |
| (e) | The financial statements of the fund up to the year 2018 were audited by private audit firms and an unqualified audit opinion was issued on the 2018 financial statements. According to the explanation given on 26 March 2022 by the Attorney General that there was no  | The private audit firm has examined the source documents related to the fund transactions only on a sample basis without detailed examination and expressed the audit   | Since it is the responsibility of the administration to prevent errors and frauds, the administration should work to introduce and                    |

obstacle for the audit of the financial statements of the fund, the audit of the fund is carried out by the Auditor General since the year 2019.

opinion. Therefore, no fraud and corruption has been revealed through this audit.

implement successful internal control systems.

### 3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>10 cheques worth Rs.15,083,260 in the name of Secretary, 5 cheques worth Rs.6,015,740 in the name of the secretary's mother, and 5 cheques worth Rs.6,120,259 in the name of the secretary's two sisters, 2 cheques of Rs.3,452,350 in the name of the Secretary's father, 5 cheques of Rs.3,535,864 in the name of other relatives of the Secretary, and a cheque of Rs.1,960,000 to the owner of a land purchased by the Secretary were written fraudulently on 56 occasions from the year 2012 to the year 2021 from this provident fund and, the special investigation committee and the internal investigation committee appointed by the Secretary of the State Ministry of Industrial Goods Production related to the promotion of coconut, Kithul and palm cultivation and Export Diversification had revealed in the year 2021 that 26 cheques amounting to Rs.40,507,760 in the name of the subject clerk and her husband and 2 cheques of Rs.500,000 and Rs.552,457 each written to a management assistant and a coconut development officer including amounting to Rs.77,727,691 had been removed fraudulently as retirement benefits, loans and contribution advances. Rs. 15,898,523 had been recovered from the defrauded money by 08 December 2023.</p>	<p>Agreed with the observation.</p>	<p>According to the provisions of the Establishment Code, appropriate measures should be taken against the officers involved in the fraud and a system should be prepared to recover all the money that was defrauded.</p>