

Coconut Cultivation Board - 2019

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the 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 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters set out in paragraph 1.5 of this report.

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, 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 Auditor's Responsibility for the Audit of the Financial Statements

It is my responsibility to issue the Auditor's report on the financial statements of the Board based on the audit conducted in accordance with Sri Lanka Auditing Standards (SLAuS). Because of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Comments of the Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

Non-Compliance	Comments of the Management	Recommendation
(a) Although action should be taken to calculate the effective life of assets based on their nature and performance and to depreciate the assets in terms of Sri Lanka Public Sector Accounting Standards No. 07, furniture and office equipment and computer and software, which had different effective lives had been classified and reviewed under the same category of assets and provision for depreciation amounting to Rs. 15,514,734 was made during the year under review and had been stated in the financial statements.	Since the Coconut Cultivation Board is a non-profit earning public sector entity providing services to the public, it should be considered that it is timely to calculate furniture and office equipment, computer software and electrical equipment for 10 years.	Assets with effective lives different from each other should be categorized under the relevant asset categories in terms of the Standard and depreciated at a depreciation rate based on effective lives and indicated in the financial statements.
(b) Since buildings, costed at Rs.13,526,044 and construction of which was fully completed in the previous years and are being used at present and solar panels costed at Rs. 7,692,368 had been indicated in work in progress account without being capitalized in terms of Sri Lanka Public Sector Accounting Standards No. 07, the value of property, plant and equipment in the year under review had been understated by that amount and the operating surplus of the year had been overstated by that amount in the financial statements due to not adjusting depreciation amounting to Rs. 1,445,539 in relation to these assets in terms of paragraph 69 of the Standard.	Since the Work completion report relating to the construction of the first phase of the new building of the Matale Regional Office and the installation of the solar system at the Head Office had not been received by the Financial Management Division, action would be taken to make adjustments in the accounts for the ensuing year.	Buildings and solar panels, which are being used after the completion of construction activities, should be capitalized in accordance with the Standard and should be depreciated under the relevant depreciation rates.

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| (c) | Although fully depreciated property, plant and equipment worth Rs.348,563,841 was being utilized, the effective lives of those assets had not been reviewed again and indicated in the financial statements in accordance with Sri Lanka Public Sector Accounting Standards No. 3 and the assets had not been disclosed in the financial statements as per paragraph 92 (b) of Sri Lanka Public Sector Accounting Standard No. 07. | It has been noted to review again the effective lives of the assets subsequent to the preparation of estimates and obtaining the approval for the provision of the General Treasury in the ensuing year to cover the expenses that should be incurred for the revaluation of the lives of the assets. | Fully depreciated assets should be reviewed again and indicated in the financial statements in accordance with Standard No. 03 and disclosure in relation to these assets should be done in the financial statements in accordance with paragraph (92) (b) of the Standard No. 07. |
| (d) | The accuracy of the cash flow statement could not be accepted at the audit as the cash flows generated from operating activities had been overstated by Rs. 39,455,822 and net cash flows generated from investment activities had been understated by Rs. 50,257,406 and net cash flows generated from financial activities had been overstated by Rs.26,742,408 since the cash flow statement had been prepared in contrary to the requirements set out in Sri Lanka Public Sector Accounting Standards No. 02. | The misstatements in the cash flow statement due to errors have been rectified and the revised cash flow statement has been submitted to audit. | The cash flow statement should be prepared in accordance with the Standard. |
| (e) | The Board had not identified an accounting policy with respect to accounting of the grants received by the Government and government grants amounting to Rs.1,036,995,186 received to the Board during the year under review had been brought to accounts in two ways. Although action had been taken to identify separately the capital and revenue grants received from the General Treasury, the entire grants, including the amount of Rs.13,161,198 spent on purchasing capital goods out of the grants received from the Ministry of Plantation Industries had been indicated as revenue income in financial statements of the year under review. | Even though the capital expenditure received from the General Treasury as government provision would be recorded as capital expenditure of the due year, government grants received to the Board would be decreased if action is taken in compliance with Standard No. 11 for capital purchases provided by other projects. Therefore, money received for projects from the Ministry or from the other external parties is not considered as government grants and such amounts have not been mentioned as per Standard 11. | One accounting policy should be followed for accounting government grants. |

1.5.2 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observation	Comments of the Management	Recommendation
(a) According to the reports on the verification of stocks, the operating surplus of the year had been overstated by Rs.1,209,600 in the financial statements as the value of an item of the opening stock of the year under review had been under adjusted by that amount. Moreover, the surplus for the year had been understated in the financial statements by Rs.1,137,131 as excessive provisions for accrued expenditure for the previous year had been stated as prior year adjustments without adjusting it to the profit of the year under review.	According to the verification of stocks, the value of empty poly bag stock related to the coconut nursery ledger as at 31-12-2018 has been understated by Rs.1,209,600 and action would be taken to rectify the error of understating the profit earned from nurseries in the financial statements prepared for the year 2020.	The correct value of the stocks should be adjusted to the opening stock and the excessive provision for accrued expenditure should be adjusted to the profit of the year under review.
(b) As the current account maintained at the Head office for the nurseries had been credited erroneously in the rectification of the error of misstating the purchase of poly bags amounting to Rs.3,493,125 in the year under review twice in cash book and to the poly bags purchasing account, the surplus for the year under review and the balance of the current account maintained at the Head Office for the nurseries had been understated by that amount in the financial statements.	It has been noted to rectify this error in the financial statements for the year 2020.	The current account maintained at the Head Office for the nurseries should be rectified.
(c) An expenditure of Rs. 2,577,450 incurred on the renovation of buildings during the year under review had been capitalized to the buildings account and as a result, the cost of buildings of the year and operating surplus had been overstated by that amount.	Buildings renovation expenditure amounting to Rs.1,933,450 in the years 2017, 2018 and 2019 has been capitalized to buildings account and other renovation activities amounting to Rs.643,999 had been capitalized under capital buildings renovation and improvements, which is under self-financing provisions.	The expenditure of renovating buildings, which was capitalized should be rectified.

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| (d) | An amount of Rs. 15,270,514 had been incurred for the Programme of controlling Weligama Coconut Leaf Wilt Disease during the year under review and an amount of Rs.12,285,900 had been reimbursed from the Ministry for that purpose. Although the value of Rs.2,984,614, which had not been reimbursed should be identified as the income receivable, it had not been done so. | Stating of cheques, received late as cash in transit has been omitted and it has been noted down to rectify this error in the financial statements of the year 2020. | Income and expenditure for the year should be identified based on the accrual concept. |
| (e) | Although the contribution of the Board to the Kapruka Fund was Rs. 2,789,450, it was indicated in the Kapruka Fund as Rs.1,156,300 and as a result, a difference of Rs.1,633,150 was observed. | It was noted to rectify this in the ensuing year. | The correct value of the Kapruka Fund should be identified in the accounts. |
| (f) | Since one hundred and twenty (120) pieces of equipment for identifying the Red Palm Weevil hazard worth Rs. 1,140,000, which had not been received even by the end of the year although those pieces of equipment were ordered in the year under review had been identified as assets and creditors, assets and creditors had been overstated by that amount. | Since the approval has been granted at the meeting of the Board held on 31-12-2019, it has been indicated in the financial statements of the year under review. These pieces of equipment have been received by the Board on 10-02-2020. | After receiving the ordered goods to the Board, its value must be identified in the accounts. |
| (g) | Since the erroneous provision for depreciation amounting to Rs. 290,110 made during the previous year for a professional camera and a drone camera, which had been ordered by the Board in the year 2017 and has not yet been received by the Board had been credited to the interest income account instead of crediting the provision for depreciation to the later period adjustment account, the operating surplus for the year under review had been overstated by that amount. | Even though orders were made in the year 2017, the items were not received to the Coconut Cultivation Board until 31.12.2019. The accounting error has been noted to be rectified in the ensuing year. | Erroneous provision for depreciation made in the previous year should be credited to the later period adjustment account. |
| (h) | Since the mobilization advance amounting to Rs. 337,796, that had not been issued had been indicated as contract creditors, contract creditors and advance account balance had been overstated by that amount. | Action would be taken to rectify this in the ensuing year. | Advances that were not issued should not be identified as advances. |

1.5.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
(a) Balance Confirmation letters for the confirmation of debtor balances amounting to Rs. 10,379,509 prevailed as at 31 December 2019 had not been submitted to the audit.	Although all the debtors were notified in writing to confirm the balances, they have not submitted the confirmation of balances.	Necessary action should be taken to provide the confirmation of debtor balances to the audit.
(b) Although replies had been submitted that the balance receivable amounted to Rs. 34,971,843, which had been carried forward from the year 2015 was an accounting error, sufficient evidence had not been submitted to audit for confirming it.	Necessary action would be taken to write off this receivable balance, carried forward owing to a stating error, against the profit earned by the Coconut Nursery Unit of the Self-Financing Unit in the ensuing years.	Action should be taken to rectify the relevant accounting error.

1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to recover amounts of Rs. 2,631,003 and Rs.1,176,375, for which Court Orders had been granted to recover from two debtor private companies respectively and Rs.6,573,572 receivable to the Board from the Ministry of Coconut Development and Janatha Estate Development since 2013.	Comments had not been made.	The Management should take action to recover the amounts receivable to the Board.
(b) Although the balance of accounts receivable and payable among the Internal Divisions of the Board could not be indicated in the Annual Financial Statements, an amount of Rs. 498,524 to be recovered to the Head Office from the Regional Offices at the end of the year under review had been indicated as accounts receivable.	Comments had not been made.	Balances receivable and payable among Internal Divisions should not be indicated in the financial statements.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Management	Recommendation
FR 137 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Payments had been made for sixteen (16) payment vouchers worth Rs.11,263,000 without getting approval.	Approval has been obtained by the file along with the bill under the financial powers and the limits of authority. All the officers in the Finance Division have been made aware to avoid the shortcoming of not having the approval in voucher.	Payments should be made only for vouchers that have been approved in terms of FR 137.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs.141,088,348 and the corresponding surplus in the previous year was Rs.14,885,097. Accordingly, an improvement of Rs.126,203,251 was observed in the financial result. The major reason for the improvement in the operating result was the decrease in the expenditure for development programmes of the Board during the year under review by Rs. 232,873,296 when compared with that of in the previous year.

2.2 Ratio Analysis

The current ratio had decreased from 1: 2.50 in the previous year to 1: 2.47 in the year under review and the quick ratio had increased from 1: 0.59 to 1: 0.66. The profit ratio which was 1.3 percent in the previous year had improved up to 14.1 percent in the year under review and the major reason for that is the decrease in the expenditure for development programmes of the Board during the year under review when compared with that of in the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although it has been indicated in the duty list of the Coconut Development Officers that they have to provide knowledge and information to the coconut growers, implement training programmes, provide advices on control of diseases / pest damages, coordinate in the release of agrochemicals,	Instructions, required for the collection and updating of data on mite damage, have been provided by the Circular on Mite Damage Management Project 2020 dated 22.01.2020 and relevant	An accurate database on coconut mite damage should be maintained and updated.

parasitoids, predators required for the control of diseases and pests, maintain a full set of a database on agricultural services of the Division and industries related to the coconut cultivation and update such data, the said officers had not maintained and updated data on coconut mite damage and the attention of the supervisory officers had not been focussed on that regard.

information is being collected by Coconut Development Officers.

- (b) An agreement had been entered in to with the contractor without obtaining the approval of the relevant authorities for the construction of another additional part for the Head Office building of the Board, which was started in the year 2014. The contractors had abandoned the contract without carrying out the construction work even though the Board had spent Rs. 14,388,275 for this construction. The Board has not yet been able to make the contract finalized by making the relevant rectifications.
- Action has been taken to take over the performance security to the Board along with the recommendation of the consultant of the construction as the contractor had neglected his functions and had failed to extend his performance security. The contracting institute had promised to complete the front section and if any financial loss had to be incurred by the Board, the contractor would pay the loss to the Board. Action would be taken in the future according to the instructions issued in relation to the letter referred to the Attorney General in this regard.
- The reasons for the abandonment of the construction work should be inquired in to and action should be taken to recover the loss from the officers responsible for that.
- (c) Although a report on the progress of each model regarding the model coconut gardens established to demonstrate the management procedure of the coconut cultivation should be submitted to the Planning Division of the Head Office once in every two weeks, such a progress review had not been carried out. When further investigations were conducted, it was observed that the Board was not paying proper attention to this project at present.
- Coconut Development Officers and Farm Planning Officers have continuously inspected the lands and kept log entries in order to monitor the progress of the model coconut gardens. It has been decided to obtain information and progress of this project through short videos.
- The work of the project should be carried out under proper supervision by preparing an accurate progress report on each model.
- (d) Even though the female officer had been dismissed from the service after recovering the damage related to the cheque fraud
- A series of instructions on the procedure of issuing and altering cheques have been
- Internal control systems must be established. Disciplinary action should

amounted to Rs. 595,060, which had occurred in the Board in the year under review due to the weakening of the internal control on payments and certification of the alterations and deletions in cheques by the certifying officers without drawing attention of the relevant responsible officers regarding the alterations and deletions made to the cheques, any disciplinary action had not been taken against the supervising officers responsible.

updated and provided rather than taking disciplinary action against the officers, as the female officer had engaged in this fraudulent activity on her own, apart from the supervisory process of the supervising officer.

be taken against the officers responsible for the weaknesses prevailed.

- (e) The amount of Rs. 372,537, which was over-paid in the year 2014 to the Buildings Department by the Board had not been recovered from the responsible parties even by the end of the year under review.

	Comments had not been made.	Action should be taken to recover the due amounts to the Board.
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- (f) Although a balance of Rs. 4,596,475, receivable from the Ministry of Plantation Industries for the coconut saplings distributed under the Divineguma National Programme could not be recovered for more than 04 years, provision for doubtful debt or a disclosure in this regard had not been made in the financial statements.

	Comments had not been made.	Action should be taken to recover the due amounts to the Board.
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3.2 Operational Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Although the Coconut Cultivation Board had operated 11 predatory mite laboratories, it was not possible for coconut cultivators to obtain the required predatory mite packets as and when required as predatory mite production laboratories were not available island wide and as there were issues pertaining to the transportation, storage and preservation of mite packets.	The General Treasury had allocated provision for the years 2019, 2020 and 2021 in relation to the special project implemented for the provision of air-conditioned storage facilities to areas, where a methodology for transporting predatory mites to coconut cultivators was not available and laboratories were not located. Regional Managers have been instructed to provide provisions of Rs. 3.00 each per one mite bag for transportation activities and to use vehicles of the Regional Office for	Action should be taken to distribute mite packets island wide to meet the demand of coconut cultivators and to address the issue in transportation, storage and preservation of predatory mite packets.

transportation of predatory mite bags or to use a vehicle on rental basis in case it is difficult to use vehicles of the Regional Office.

- (b) These laboratories were contaminated in the last quarter of the year 2018 due to the negligence on the part of the laboratory staff of the laboratories of the Coconut Cultivation Board located in Batticaloa, Welipitiya, Kegalle and Ampara and due to poor laboratory conditions and non-availability of necessary sterilization equipment in the laboratories. The Welipitiya predatory mite laboratory had been closed down by this period.
- The Coconut Cultivation Board produced predatory mites in 11 laboratories with the assistance of the newly trained officers and contaminations may arise in various scales in various occasions during this process.
- Action should be taken to maintain the laboratories belonging to the Board under the prescribed Standards.
- (c) A sum of Rs. 38.45 million had been allocated for training activities and Rs.12.25 million had been allocated for the purchase of field equipment for training, which was 76 percent and 24 percent respectively out of the amount of Rs. 50.7 million estimated for the Project for Establishment of “Wavili Saviya” Skilled Workforce implemented by the Ministry of Plantation Industries and the Coconut Cultivation Board as per the project proposal. However, a sum of Rs.5.12 million had been used for training activities and a sum of Rs. 19.02 million had also been used to buy field equipment and tablet computers, which were 22 per cent and 79 per cent respectively out of Rs. 24.55 million received for the project by the end of the year 2019. Accordingly, it was observed that the use of money extraneous to the project proposal had not assisted in the achievement of the main objective of establishing a skilled workforce for the coconut industry.
- An amount of Rs. 24.557 million, which was 40 percent provided by the end of the year 2019, out of the amount of Rs. 50.7 million estimated for this project scheduled for 03 years, has been utilized for the purchase of tablet machines as electrical equipment by giving priority to provide better understanding among the workers on the use of mechanical equipment.
- Provision approved for the project should be utilized to accomplish the primary objectives of the project as per the project proposal.

3.3 Human Resource Management

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) The interview for recruiting by filling 13 vacancies in the Post of Management Assistant Grade III was conducted in the year under review in contrary to the provisions stipulated in the Management Services Circular, No. 03/2018 and it was observed that the awarding of marks to the candidates, who appeared for the interview had been carried out contradictory to the approved marking scheme. It was further observed that 5 out of the 13 officers who were recruited for the Posts were candidates who had not appeared for the relevant interview on the scheduled date of the interview.</p>	<p>Although the signatures of 5 selected candidates had not been placed in the common signature register, these candidates had participated in the interview in a formal manner as marks had been duly included in the mark sheet of the interview at the time of the recruitment. I would like to state that the provisions of the Management Services Circular, No. 2018/03 had not been violated as applications had been invited for such posts through newspaper advertisements and public notices as per the instructions issued by the Chairman as a mean of prior preparedness until the approval is granted for filling the vacancies.</p>	<p>Action should be taken to fill the approved vacancies in a transparent manner in accordance with the approved schemes of recruitment and Management Services Circulars.</p>
<p>(b) It was observed that 20 officers, out of the 27 officers recruited from the interview conducted during the year under review to fill 30 vacancies of the Post of Coconut Development Officer Grade III, had been recruited by awarding higher marks contradictory to the marking scheme, which is related to the recruitment. Accordingly, it was observed at the audit that these recruitments had been made without transparency and without impartiality.</p>	<p>It is observed as per the mark sheet of the interview that all the 27 Coconut Development Officers recruited to this Board have participated in all the three interviews. The Interview Board had awarded marks appropriately for the certificates brought for the interview by the candidates and for the presentations of the candidates at the time of the interview and the marks had been duly awarded in accordance with the relevant marking schemes.</p>	<p>Action should be taken to fill the approved vacancies in a transparent manner in accordance with the approved scheme of recruitment and the approved marking scheme.</p>