

Coconut Development Authority - 2020.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Coconut Development Authority (“The Authority”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in net assets 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 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 position of the Authority as at 31 December 2020, 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 determines 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 intends to liquidate the Institute 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 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 Institute'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 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 of the Authority 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	Comments of the Management	Recommendation
<p>(a) In accordance with paragraph 24 (a) of Sri Lanka Public Sector Accounting Standards No. 01, the entities should present the financial statements so that the budgeted amounts and the actual amounts can be separately shown, nevertheless, such budgeted amounts had not been included in the financial statements presented for the year under review.</p>	<p>Actions have been taken to present financial statements for the year 2021 showing the all income and expenditure, with budgeted and actual values separately.</p>	<p>The financial statements should be presented showing the budgeted amounts and the actual amounts separately in accordance with the instructions in the Standard.</p>
<p>(b) Although 65 machineries worth Rs. 1,337,550 were further in use, action had not been taken to shown in the financial statements amending their estimated error on useful life as per the Sri Lanka Public Sector Accounting Standards No. 03.</p>	<p>Due to the availability of large number of items, the revaluation could not be done in practice and actions would not be done for it.</p>	<p>Adjustment for the accounts should be made after amending the estimated error on useful life of assets in accordance with the instructions in the Standard.</p>
<p>(c) Machineries including Boxing machine which was installed at a cost Rs. 1,008,348 in Dunkannawa</p>	<p>Action is being taken to present the adjustment after capitalizing accurately during the year 2021.</p>	<p>In accordance with paragraph 14 of Sri Lanka Public Sector Accounting</p>

Coir Development and Training Center which owned by the Authority in the year 2019, and computers and furniture had been written off as recurrent expenditure for each year without being capitalized. Due to that the value of property, plant and equipment in the financial statements had been understated by that amount.

Standards No. 07, related future benefits or service potential assets flow into the entity, should be recognized as fixed assets.

(d) For the receivable loan balance of Rs.26,715,037 from B.B.C. Lanka Company for 35 years, had calculated an interest income of Rs. 4,011,609 per annum for a loan balance and the value was also made provision as doubtful debt because it was unlikely to be obtained. No action had been taken to disclose in the financial statements and to make necessary adjustment to the impaired value of the loan balance.

The interest due as per the agreement is shown as the interest income in every year and has been written off as doubtful debt as it has not been charged for many years. However, no further action has been taken, as B.B.C. Lanka Company has stated that it will repay the entire loan and interest.

In accordance with paragraph 33 of Sri Lanka Public Sector Accounting Standards No. 10, when the possibility that the transaction and associated economic benefits or serviceability would flow into institute and should be identified as interest income when the magnitude of the proceeds could be reliably measured and should be disclose in the financial statements and make necessary adjustment for impaired value.

1.5.2 Accounting Deficiencies

Audit Observations

Comments of the Management

Recommendation

(a) Although it was submitted factors to the audit that 39 machines which were in the fixed assets register purchased in years 2005 and 2006 which had been fully depreciated and purchased at a cost of Rs. 3,363,900 had been provided for the pilot projects, the physical existence of those assets could not be ascertained due to the lack of details in the relevant projects. Also those assets had not

All the machinery was handed over to the industrialists during that period and the machinery could not be surveyed due to the Authority had not maintained any records in this regard.

Those assets should be surveyed, documented and acted upon as appropriate.

been surveyed and disposal or revalued as appropriate.

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| <p>(b) Although the physical inventory verification was done by 31st December 2020, instead of that physical inventory value of Rs.26,351,915, books balance according to the stock books were included in the financial statements. The accuracy of the stock in financial statements could not be confirmed due to existence of a shortage of 101 units of laboratory equipment worth Rs.852,754, a surplus of 49 units worth Rs.375,412 and existence of 1,834 uncalculated stock units those value was not in the inventory book in the sample test with the physical verification report according to the books balances.</p> | <p>The change that has taken place due to a mistake in using the correct stock code numbers for socks receiving and issuing to the warehouse is now being rectified.</p> | <p>Steps should be taken to adjust accounts in accordance with physical inventory verification and to comply with financial regulations regarding variability.</p> |
| <p>(c) Debtor of Rs.4,199,681 accounted for due at the end of the year under review and income of Rs.8,996,305 identified in respect of the year under review could not be verified due to factors as non-issuance of invoices for services rendered to “Desiccated” coconut mill owners, non-maintenance of debtor ledger, non-availability of proper methodology for recovering and identifying money credited directly to the bank.</p> | <p>Cash received from the relevant mill owners in the year 2019 have been deducted an amount of Rs.1,699,932 from the relevant debt balances on account of the excess of desiccated and water model fee income and the excess accounted to the debtors.</p> | <p>Immediate action should be taken to rectify the existing deficiencies in the existing internal control system regarding the provision of services to the owners of desiccated coconut mills.</p> |

1.5.3 Lack of Evidence for Audit

Subject	Amount Rs.	Lack of Evidence for Audit	Comments of the Management	Recommendation
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(a) Loan granted to the British Ceylon Lanka Company (BBC) from the	58,265,037	Balance Confirmation	Relevant balance confirmation reports have been	Balance confirmations should be

Coconut Oil Price Stabilization Fund and the Capital Development Fund.

requested. submitted for receivables.

(b) Balance due to 05 creditors 22,537,373

Balance confirmation letters had been sent to all debtors and creditors. Balance confirmation should be submitted for payables. Balance confirmations should be submitted for payables.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observations

Comments of the Management

Recommendation

(a) No effective actions had been taken to recover the interest bearing loan of Rs.26,715,037 had given from the Coconut Oil Price Stabilization Fund and the interest free loan of Rs.31,550,000 had given from the Capital Development Fund in 2002 and 2004 to British Ceylon Company Lanka Company in the year 1985 together with the loan amount of Rs.58,265,037 with Rs.52,150,917 interest.

Held several discussions under various Ministries over the years to recover the debt and interest due from the BBC Company and has informed to the treasury in writing. BCC Company has stated that it will repay the loan.

Necessary steps should be taken to recover the loan and interest.

(b) Actions had not been taken to recover Rs.1,376,631 due from 32 Desiccated coconut production mills and 14 coconut milk production establishments in the years 2018 and 2019.

A portion has been recovered by informing to the relevant owners of desiccated coconut mills about the amount due. Arrangements will be taken to recover amount due from ceased mills from the Mill Development Fund in the future. The amount due from coconut milk production institutes is being collected by now.

Actions should be taken to recover the amount due immediately and to collect the relevant fees before doing investigations from now on.

1.6.2 Payables

----- Audit Observations -----	----- Comments of the Management -----	----- Recommendation -----
(a) No actions had been taken to settle the total amount of Rs.199,277,972 that is Rs.76,277,972 obtained from Coconut Oil Price Stabilization Fund and Rs.123,000,000 from the Government for the Mill Development Fund between the years 2015 and 2020 to provide Jaya Insure Loan.	Not commented.	Necessary actions should be taken to settle the loans obtained.
(b) Actions had not been taken to settle the 40 percent of king coconut export service charge of Income Rs.21,802,011, payable to the Coconut Cultivation Board for king coconut promotions from more than one year and Rs.463,942 payable to another institution for more than 3 years.	As the money for the king coconut promotion is intended to be given to coconut and king coconut growers instead of being given money to the Coconut Cultivation Board, further action to be taken in this regard. (No comments have been made regarding the Rs.463,942 to be paid to another institution.)	Necessary actions should be taken to settle the amounts payable.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs.18,194,029 and the corresponding surplus of the preceding year was Rs.63,223,491. Accordingly, a deterioration of 45,029,462 was observed in financial results. Although the treasury provision of the year under review had increased by Rs.31,072,688 and decrease in the expenditure by Rs.65,285,714, the decline was mainly due to decrease in the institute's earnings by Rs.63,322,688 and the transfer of Rs.93,228,592 from the Fuel Stabilization Fund to the Consolidated Fund.

3. Operating Review

3.1 Management Inefficiencies

----- Audit Observations -----	----- Comments of the Management -----	----- Recommendation -----
(a) Activities of the Dunkannawa Coir Development and Training Centre which was established in the year 2006 with the objective of training relevant parties for the development of coir industry, has been suspended from February 2020 due to shortage of staff and non-repair of machineries and there	It will cost a lot of money to reactivate machines that are currently inoperative. Although steps were taken to provide this institution to the public and private sector, no suitable institution was offered for it. The new management, which was formed in July 2021, has instructed to turn this into coir and coir	Action should be taken without delay to achieve the objectives of establishing the center.

was a risk of passive extinction of buildings, machineries and furniture including rehabilitation at cost of Rs.1,586,383 in the year 2019 and 2020.

- (b) It were unable to provide relevant services and generate revenue due to the Atomic Absorption Spectrophotometer (AAS) equipment worth Rs.4,984,973 used to test the heavy metals in the water that has been removed since 2015 and had not been activated by July 2021. There was no indication in the annual inventory survey report that the equipment was defective.

related products training center and has already started preliminary work in this regard.

Due to the heavy flooding in 2015, it had to be temporarily evacuated as per the instructions of the agent. After that the laboratory upgrades were carried out till 2019, and it was installed in the year 2020 but due to errors in the operation of the equipment, the imported parts will be installed and heavy metals tests will be carried out using the equipment from August 2021.

The machine should be used without delay.

3.2 Operating Inefficiencies

Audit Observations

- (a) Although the strategy of producing quality coconut oil and delivering quality coconut oil to consumers has been selected and implemented to fulfill the role of the Authority in maintaining the quality of coconut products produced in Sri Lanka or exported in terms of the Coconut Development Authority Act No.46 of 1971, the 5 star logo for quality oil producers was obtained only 7 mills in 2019.
- (b) Although the average amount of coconut oil remaining for domestic consumption is only 23,771 metric tons, 5,516 metric tons were exported out of 29,287 metric tons of the average annual production of coconut oil during the period 2016-2019, since the domestic demand was 93,103 metric tons, deficit of 69,332 metric tons, 5,044 metric tons are met by imported coconut oil and the remaining 69 percent by imported palm oil and the average import of palm oil was 199,433 metric tons during the last 04 years.

Comments of the Management

The 5 star logo is considered to be the highest condition of the rating process and is considered as a rating by local oil producers who meet 5 quality conditions including the manufacturing process. Out of 14 industries that applied in 2019, only 7 industries that met the standardization were able to issue the logo. It can be mentioned that the entire industrial sector has already made some progress from the manufacturing process.

Although manufactures registered with the Coconut Development Authority have machinery capable of producing more than 90,000 metric tons per year, but the public is encouraged to use imported oil as well as substitute oils as the country does not have enough coconut yeild to meet the overall industry and domestic consumption. Therefore, 190,000 metric tons of imported palm oil has been consumed by the public as substitute.

Recommendation

Efficient action should be taken to fulfill the responsibility of the Authority to maintain the quality of coconut products.

Attention should be paid to short term and long term remedial measures to increase local coconut oil production.

Accordingly, it was observed that obtaining most of the local coconut oil consumption from palm oil and imported coconut oil without taking steps to increase the production of quality coconut oil is not in line with the objectives of the Authority.

(c) In accordance with paragraph 3 of the first schedule of the extraordinary gazette notification no. 69/4 dated 31 December 1979 published under section 51 of the Coconut Development Act No. 46 of 1971 as amended by Act No. 24 of 1975, although the Authority should set and maintain quality standards for coconut products produced or exported from Sri Lanka, it was observed that 72 percent of the total coconut oil consumption in Sri Lanka had not undergone a standard test..

(d) Objective of the Mill Development Fund established in 1980 for the development of desiccated coconut industry in terms of the Coconut Development Act No. 46 of 1971 was to modernize the mills and meet the requirements for maintaining the mills by depositing in the savings bank accounts in the name each mill owner from the money received from the Cess Fund at the rate of 20 cents for every 01 kg of desiccated coconut exported. But any action had not been taken on that regard in the years 2019 – 2020 and balance in the accumulated fund was Rs.84,206,686 at the end of the year under review and value of the bank deposits was Rs.160,835,956 with the Rs.5,916,064 of Cess Fund received in the year under review. Furthermore no action had been taken to prepare annual budgets,

So far, the laboratory has tested only the oils that have been tested at the request of the manufacturers and the oils that are manufactured in connection with the quality upgrade.

Desiccated coconut producers are notified at the end of each year to list the existing deficiencies in the institution before registering for the next year and to complete the deficiencies that directly affect the production activities before registration.

Although the working capital requirement of the Desiccated coconut industry were met by this fund due to the unforeseen shortage of raw materials in the coconut industry in the years 2017 and 2018, there was no reimbursement for development activities in 2019 and 2020. Provisions provided by the General Treasury are included in the Annual Action Plan.

The existing producers for setting and maintaining quality standards for coconut products in accordance with the provision of the Act should be improved.

The focus should be on achieving the objective for which the fund was established through a well-planned program.

action plans and corporate plans and to make the fund to the statutory condition in order to implement a problem solving program in the industry and to achieve the specific goals while making the activities more efficient.

(e) Although the Coconut Oil Price Stabilization Fund has been set up for the purpose of controlling prices releasing to the market according to the increase or decrease in price by purchasing large quantities of coconut oil in bulk as per the power of Coconut Development Act No. 46 of 1971, this program has been abandoned by the Authority since 1981 and the oil tanks maintained at the port have been handed over to other institutions. However, the financial statements of the Fund were being prepared till the end of the year under review with a total balance of Rs.157,943,367 including Rs.78,865,954 loans outstanding from 1985, an investment balance of Rs. 220,171,884 and an accumulated fund balance of Rs.324,046,799.

(f) Although it was expected to give Rs.02 million to 15 industrialists during the year under review for facilitate to the processing of coconut shell charcoal and the commencement of value added charcoal production, only Rs. 0.61million was given to 05 industrialists and the progress was only 31 percent.

No monetary value of oil tanks can be found at present. The money earned from this fund has been duly invested.

Under this, facilities are being developed to promote industries in the informal sector but due to the epidemic situation the objectives of this project could not be achieved. Arrangements have been made to provide cash to 04 more selected investors in the year 2021.

This fund, which have been inactive for 29 years, needs to be properly reviewed and action taken. The reasons for abandoning this program since 1981 should be explained.

The desired goals must be achieved.