

## Coconut Development Authority - 2019

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Coconut Development Authority 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 and notes to financial statements for the year then ended 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 the Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in 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 Coconut Development Authority as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 1.2 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 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 Authority's financial reporting process.

As per Sub-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 Scope of Audit**

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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 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 Authority'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 Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit 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 Board ;
- 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 Comments on Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
a) According to Section 24(a) of the Sri Lanka Public Sector Accounting Standard 01, an entity should present financial statements in a manner that budgeted and actual values can separately be shown. However, the budgeted values had not been shown in the financial statements presented for the year under review.	measures have been taken to present financial statements for the year 2020 showing the budgeted and actual values separately in accordance with Section 24(a) of the Standard 01.	The budgeted values should be shown in the financial statements in accordance with the Standard.
b) Contrary to Sri Lanka Public Sector Accounting Standard 02, the operating profit before adjusting the working capital items had been understated by Rs. 44,580,305, and the net cash flow generated from	As pointed out in the audit report, action has been taken to revise the cash flow statement for the year 2019.	The cash flow statement should be prepared accurately in accordance with the Standard.

the investment activities had been overstated by Rs. 51,508,806 whilst the net cash flow generated from the financial activities had been overstated by Rs. 873,493 in the cash flow statement.

## 1.5.2 Accounting Deficiencies

----- <b>Audit Observation</b> -----	----- <b>Comment of the Management</b> -----	----- <b>Recommendation</b> -----
a) The expenditure on the employee medical insurance amounted to Rs. 6,424,960 for the year under review, but the same had been shown as Rs. 5,268,328 in the statement of financial performance. As such, the surplus of the year under review had been overstated by Rs. 1,156,632. Furthermore, the said expenditure on medical insurance should have been shown under employee remuneration, but that had been shown under transport, communication and other services.	As the adjustment on input tax relating to the year 2018/2019 had not been done, this difference had occurred. Action will be taken to rectify that value when the final accounts are prepared for the year 2020.	The expenditure relating to the year should be correctly identified, and the expenditures should be classified correctly.
b) The receivable interest income of Rs. 2,753,249 relating to a Treasury bill valued at Rs. 88,766,649 had not been brought to accounts. The interest income receivable from the other Treasury bills for the year under review had been undercomputed by Rs. 100,868. As such,	The interest amount of Rs. 88,766,649 on the Treasury bill had not been received as at the date of accounting. Thus, the said amount could not be brought to account. The undercomputed amount of Rs. 100,868 relating to that amount and the interest will be shown under prior adjustments in the final accounts of the year 2020.	The receivable interest income should be correctly computed and brought to accounts.

the surplus of the year under review had been understated by Rs. 2,854,116 in the financial statements.

### 1.5.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Management	Recommendation
Letters of confirmation of balances relating to a loan balance totalling Rs. 40,456,462 receivable to the Authority from private institutions, had not been made available to the Audit. As such, those loan balances could not be satisfactorily vouched in audit.	Not commented.	The physical existence of unconfirmed loan balances, should be verified.

### 1.5.4 Accounts Receivable and Payable

Audit Observation	Comment of the Management	Recommendation
An interest income of Rs. 4,011,609 was computed in accordance with the loan agreement on a loan balance of Rs. 31,550,000 that remained receivable to the Authority from a private institution over a period of 14 years, and the interest amount, so computed, was recognized as an income of the year contrary to Section 33 of the Sri Lanka Public Sector Accounting Standard, 10, thus allocating a balance as doubtful debt equivalent to that interest income. Nevertheless, this was not revealed in the financial statements, nor had the adjustments for the impairment value on the said loan balance been made in the financial statements.	As for the computation of profit generated from operational activities, a sum of Rs. 4,011,609 had been credited to the revenue as interest income whilst deducting an equal amount as allocation for doubtful debt. As such, the effect thereof would be nullified. The net cash flow had not been understated by Rs. 4,011,609 contrary to being mentioned in the audit query. Nevertheless, as mentioned in the audit query, surplus of the operating activities under non-financial changes in the cash flow statement will be added to this value, before being shown in the cash flow statement by deducting the same value again.	Income should be recognized and disclosed in terms of the relevant Standard. Necessary adjustments should be made on the impairment value as well.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 63,223,492 as compared with the corresponding surplus of Rs. 74,288,048 for the preceding year. As such, a deterioration of Rs. 11,064,556 was observed in the financial result. The reasons such as, decrease in the capital relief assistance of the Government, decrease in the write-off of amortization against the capital grants, and increase in allocations for gratuity, had mainly attributed to the deterioration of operating result.

### 2.2 Ratio Analysis

The current ratio had declined from 1:9.73 to 1:5.87 whilst the quick ratio had declined from 1:9.40 to 1:5.73 since the preceding year up to the year under review. The profit ratio of 18.54 in the preceding year had dropped to 14.49 in the year under review.

## 3. Operating Review

### 3.1 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
As for the printing of sticker-like labels with serial numbers during 2014-2018 in order to stick on the products of the mill owners registered with the Authority when such products were introduced to the market, stickers were printed without considering the production capacity of the mill owners and future requirements. As such, 5,017,133 stickers valued at Rs. 9,262,700 were observed to have been stored in the main store and the processing division without being used.	<p>Due to considerable decrease in the coconut harvest following the severe draught in the year 2017, the new manufacturers abandoned the manufacturing process. With the year 2018 producing the least coconut harvest ever, the industries related to coconut, collapsed. As such, manufacturers did not register , nor had the labels been purchased as expected.</p> <p>The officers have been instructed that the labels remaining at the stores at present be given to the industrialists at the time of their registration in the year 2020. Additionally, measures have been taken to consider the capacity of the relevant institutions and their future requirements when printing the labels again.</p>	The existing stocks of stickers should be properly stored and issued to the manufacturers promptly. Measures should be taken to avoid the stickers from being misused.

### 3.2 Management Inefficiencies

The following matters were observed.

Audit Observation	Comment of the Management	Recommendation
<p>a) With the objective of encouraging the manufacturers to locally produce coconut oil with improved quality and introduce to the market after being packaged, a sum of Rs. 9,000,000 had been allocated through the annual budget for the year 2019 on programs implemented by the Processing Division. However, due to failure of the management to execute the activities exactly as planned, it was observed that 57 per cent of the amount allocated annually equivalent to Rs. 5,101,307 had been saved.</p>	<p>A sum of Rs. 3,000,000 of that provision had been allocated for providing containers. However, the management decided at the meeting held on 2020.01.04 for issuing the emblem on qualitative coconut oil that it was not fair enough for the Authority to spend a sum of over Rs. 120,000 on one industrialist to store 30 liters of coconut oil. As such, the process of producing and distributing the containers had to be halted.</p> <p>It is informed that the process of registering the emblem to be issued for qualitative coconut oil, with the National Intellectual Property Office of Sri Lanka, had not come to a conclusion even by August 2020.</p>	<p>The plans for improving the locally produced coconut oil should be prepared correctly. Provision should be allocated only after meeting the prior requirements.</p>
<p>b) It had been decided to conduct 03 programs using media to promote products made with value added coconut flesh instead of using coconut seeds, but no program whatsoever had been held within the year 2019. Furthermore, out of the sum amounting to Rs. 9,344,832 paid to the Sri Lanka Rupavahini Corporation in that connection in the year 2016, the Rupvahinini Corporation had agreed to allocate an airtime worth</p>	<p>As it was a matter of discussion that heavy costs would be incurred on the airtime with respect to airing advertisements under three categories, the Procurement Committee decided that only one category of advertisement should be produced (two TV commercials each spanning over 30 seconds). However, due to failure in obtaining instructions from the former Chairman, no further action could be taken in that regard.</p> <p>The Commission to Investigate Bribery or Corruption that conducted an inquiry on the said programme (2014) was queried in 03 instances as to the possibility of</p>	<p>A prior evaluation should be done on the possibility of implementing the programs to be included in preparing the Action Plan. The airtime agreed upon by the Rupavahini Corporation should be used promptly, and that right should be disclosed in the financial statements.</p>

Rs. 7,060,032. However, utilizing the sum of Rs. 7,060,032 due to an inquiry belonging to the Coconut conducted by the Development Authority and Presidential Committee retained by the Sri Lanka of Investigation, that right Rupavahini Corporation, but no could not be exercised, response has been given so far. but it had not been disclosed in the financial statements.

### 3.3 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>a) The laboratory of the Coconut Development Authority had received 384 samples collected from coconut related products including the samples from external parties for tests during the last 06 months of the year 2019. However, due to failure in taking action to maintain a sufficient laboratory staff, there existed 127 samples exceeding the date for issuing reports decided by the Authority in terms of the criteria set out by the Sri Lanka Standards Institution. It was further observed that out of the 257 reports issued, 181 reports had been issued after the date by which the reports should have been issued.</p>	<p><u>Delay and failure to issue test reports</u>            Due to lack of staff in the quality control and quality assurance division, there were delays in issuing reports, but contrary to the observation made by the Audit, non-issue of test reports had not taken place.            The Scheme of Recruitment has been revised, and awaiting for the approval of the Board of Directors. Action will be taken to obtain approval of the Department of Management Services promptly, make recruitments, and issue test reports without delay.</p>	<p>Recruitments should be made expeditiously, thereby taking action to issue the test reports on time.</p>
<p>b) An expenditure totaling Rs. 130,755,085 had been incurred on foreign trade exhibitions during the 03 preceding years. However, examining the performance in exporting 37 coconut related products revealed that export of 16 products had</p>	<p>The export of coconut related products depends on the number of coconut seeds remaining after allocating the coconut seeds for daily consumption from the annual yield of coconuts. A decline in the annual yield of coconuts was shown in the years 2017 and 2018. Due to increase in the prices of coconut related products, the export of such</p>	<p>Accurate identification of measures for increasing the export income from coconut related products is necessary before incurring the relevant promotional expenses.</p>



declined whilst the increase in the total export income of coconut related products relating to the years 2018 and 2019, had been as low as 04 per cent.

products had decreased. Although an increase in the coconut yield was observed in the year 2019, the importers had purchased coconut related products from the other competitive countries during the preceding years. As such, it is difficult to create a market for the coconut related products of Sri Lanka with immediate effect.

c) It was mentioned in the Action Plan for the year 2019 to conduct 02 awareness programs and workshops on marketing the coconut related products in view of expanding the local market. However, no programme whatsoever had been conducted.

As the capital provision had not been received in the year 2019 as expected, those programs could not be conducted.

The Action Plan should be followed as possible as it is.

### 3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
In order to test the sugar, vitamins, and PHA levels of coconut flesh related products, a UHPLL 3000 machine had been purchased in the year 2017 at a value of Rs. 6,625,660. However, due to failure in drawing attention on the preliminary requirements before purchasing the machine such as location of installation, and skilled labour required to operate the machine, it was observed that the machine remained unused even up to 30 August 2020.	Although the machine had been purchased in the year 2017, it could not be made use of until the renovation works of the location to be used for installation are complete. Nevertheless, the machine remains functional at present. However, except for the 300-400 tests carried out daily , it has become difficult to assign employees for new tests as 52 per cent of the Analysts of the division has fallen vacant.	Vacancies should be filled thus making use of the machine with immediate effect.

### 3.5 Delays in Capital Works

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Approval of the Board of Directors had been received in May 2016 to construct the venue for coconut auction. The constructions with a contract cost of Rs. 5,389,080 had been scheduled to be commenced on 26 March 2019 and completed by 26 July 2019. However, due to reasons such as, the work site had not been properly handed over to the contractor, and the contractor had not been provided with the plan that had later been amended, the said contract could not be completed even by June 2020.	<p>The work was delayed until the appointment was made to the post of Engineer (Civil). The construction of coconut auction hall that had begun on 26 March 2019, was scheduled to be completed by 26 June 2019. However, due to the following justifiable reasons, the repair works delayed.</p> <ol style="list-style-type: none"><li>i. Taking action to partition the space in a manner suitable for requirements of the Authority.</li><li>ii. Having to change the electrical wiring.</li><li>iii. Until receiving compensation for the building on Duke's Street, Colombo Fort that had been destroyed by fire, the scrap in the building could not be removed.</li><li>iv. As security of the country had been tightened owing to the emergency situation prevailed in the country in April, the renovation works of had to be halted heeding to the instructions given by the Police.</li></ol>	The prerequisites should be satisfied prior to commencing procurement process. The said construction of which the procurement process had been commenced, should be completed promptly.

### 3.6 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Due to failure in filling vacancies in the key posts of the Coconut Development Authority such as, Director General, Director	<ul style="list-style-type: none"><li>• As a period of about one year has elapsed since applications had been called for the posts of</li></ul>	Those vacancies should be filled promptly.

(Administration), Director (Process Development), Director (International Marketing), Legal Officer, Research Officer, Administrative Officer, and Book Keeper (02 posts), it was observed that this situation had become a hindrance to the achievement of objectives of the Authority.

Director General, Director (Administration), Director (Marketing), and International Research Officer, a Board Paper has been presented to the meeting of the Board of Directors in view of reaching a decision.

- Recruitment to the post of Director (Process Development), has been suspended due to election.
- The Department of Management Services has been requested to revise the Scheme of Recruitment due to lack of a suitable candidate for the post of Legal Officer, but the Department did not agree to do so. As such, action is being taken to make recruitments to this post on contract basis.
- As a case is in progress at the Supreme Court with respect to the post of Administrative Officer, recruitments could not be made until a verdict is returned.
- As it has taken a period of one year since the interview had been conducted for the post of Book Keeper, the Board of Directors was requested at the meeting held on 2020.07.31 to reach a decision on the recruitments.