

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the of Coconut Research 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 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 Board as at 31 December 2019, 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 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

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 intends 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 Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the 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 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 Board'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 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 Board 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 Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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-compliances with Sri Lanka Public Sector Accounting Standards

Non-compliance	Comment of the Management	Recommendation
(a) The Property, Plant and Equipment should be revalued once per 03 or 05 years as necessary in terms of Section 47 of Standard 07. However, lands costing Rs. 1,539,783,874 and buildings costing Rs. 187,578,610 had not been revalued and brought to accounts since the year 2005.	The revaluation of lands and buildings has already been commenced. Due to lack of documents to verify the ownerships of 03 lands (50 acre plot in Bandirippuwa, Walpita estate, Ambakele watta), revaluation would not be done until the Department of Valuation verifies the relevant ownerships.	Assets should be revalued and shown in the financial statements as per the Standard.
(b) A number of 141 motor vehicles worth Rs. 75,458,252 were still in use despite being fully depreciated, but action had not been taken in terms of Sri Lanka Public Sector Accounting Standard, 03 to assess the useful life of those assets. Furthermore, those assets had not been disclosed in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 07.	It is informed that action would be taken to revalue the vehicles in the year 2021 and adjust in the accounts.	The useful life of assets, still in use despite being fully depreciated, should be reassessed, and necessary adjustments should be made.

- (c) The actuarial valuation method had been followed to compute the employee gratuity for the year under review, but as per Section 94 of the Standard 19, the Treasury bond ratio of 8.45 per cent should have been used as at the date of reporting; however, the Board had used 7 per cent as the rate thus allocating a sum of Rs. 157,280,087 for gratuity. Furthermore, the disclosures relating to the computation of employee benefits had not been made in the financial statements by the Board contrary to Section 141 of the Standard.
- The rates of interest had considerably fluctuated in the year 2019. As such, a minor change in the ratio would have immensely affected the allocation of gratuity. Hence, we obtained the ratio of 6.5 per cent through the Internet and that value was rounded to 7 per cent.
- Employee gratuity should be computed and relevant disclosures should be made in the financial statements in accordance with the Standard.

1.5.2 Accounting Deficiencies

The following accounting deficiencies were observed.

Non-compliance	Comment of the Management	Recommendation
<p>(a) An amount, equivalent to the expenditure incurred from local and foreign grants received for special research projects, should have been recognized as revenue. However, the sum of Rs. 123,187,475 incurred on the said special projects up to the end of the year under review, had not been deducted from the relevant grants and recognized as a revenue. Accordingly, the value of capital grants shown in the financial statements, had been overstated by that amount.</p>	<p>The local and foreign grants utilized on the special projects are recognized as non-current liabilities, and those grants relating to each project are written off in the grants account in a manner proportional to the expenditure incurred in a certain year on each of the projects. However, a sum of Rs. 21,447,817 there from pertained to the projects already completed, and has not been recognized as a revenue thus far. As such, it is informed that corrective measures would be taken in the accounts for the year 2020. The balance amount of Rs. 139,312,882 (160,760,699-21,447,817) comprised the values pertaining to 05 projects still in progress without being completed. As such, had the said value been recognized as a revenue at once,</p>	<p>A revenue proportional to the expenditure incurred each year, should be written off in the relevant grants account.</p>

that would be limited only to the accounting year. Hence, it is informed that adjustments would be made in the project account for the relevant year proportional to the expenses incurred in due course on each project.

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| <p>(b) The expenses of Rs. 1,988,350 and Rs. 947,298 incurred on the construction of a fence around the coconut seed garden in Kinyama, Chilaw, and the mesh rolls purchased for covering that fence respectively, had been shown as a recurrent expenditure under project expenses. As such, the surplus of the year and estate improvement cost had each been understated by Rs. 2,935,648 in the financial statements.</p> | <p>It is informed that corrective measures would be taken in the accounts for the year 2020.</p> | <p>Expense, when brought to accounts, should be shown after being classified as recurrent expenses and capital expenses.</p> |
| <p>(c) With respect to the purchase of a stock of equipment worth Rs. 1,425,000 to control red beetles in the year under review, erroneous journal entries had been made in the miscellaneous expenditure account, miscellaneous creditors' account, contributory capital account, assets write-off account, and amortization account. As such, those accounts had been overstated by sums of Rs. 1,995,500, Rs. 1,425,000, Rs. 570,000, and Rs. 570,000 respectively whilst the amortization account had been understated by Rs. 570,000.</p> | <p>It is informed that corrective measures would be taken in the accounts for the year 2020.</p> | <p>Journal entries should be made in the accounts after verifying the accuracy thereof.</p> |
| <p>(d) According to financial reports of the Research Board, the account balance receivable from the Coconut Cultivation Board, amounted to Rs. 35,298,009 as at the end of the year under review. However, the corresponding</p> | <p>Not commented.</p> | <p>Action should be taken to verify the balances receivable.</p> |

balance amounted to Rs. 42,129,005 as per the financial reports of the Coconut Cultivation Board. Accordingly, a difference of Rs. 6,830,996 was observed belonging to the those balances, but no action had been taken to identify and adjust the balances.

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| (e) | The initial payment of Rs. 1,000,000 payable to the Coconut Cultivation Board, and the lease rent of Rs. 25,000 to be paid annually with respect to the coconut seed garden in Weligama obtained on lease, had not been shown in the statement of financial position as a liability. | Due to a deficiency in the agreement prepared with the Coconut Cultivation Board, those values were not shown as a liability until the issue was solved. It is informed that, once the issues is solved, the values will be brought to accounts as a liability. | Commitments should be identified and shown in the financial statements in accordance with the agreement. |
| (f) | An expenditure of Rs. 1,045,809 had been incurred in the year under review for upgrading the accounting software used to process salaries of the Board. That value should have been shown as an intangible asset in the accounts, but recognized as an expenditure incurred on repairing computers. As such, the surplus and assets of the year under review, had been understated by that amount. | It is informed that corrective measures will be taken through the accounts for the year 2020. | Acquisition and upgrade of computer software should be recognized as intangible assets of the Board and brought to accounts. |
| (g) | The sum of Rs. 810,118 retained with respect to the construction of an irrigation system at the Genetic Resources Center in Pallama, had been debited to the Lab & Field Maintenance Account – 880/93/38 whilst being credited to the creditor’s account, thus understating the profit of the year by a sum of Rs. 810,118, and the balance of the creditor's account, had also been overstated by that amount. | It is informed that corrective measures will be taken through the accounts for the year 2020 | Expenses should be correctly classified and shown in the accounts. |

- (h) As for the release of 05 per cent retention money amounting to Rs. 476,199 relating to the water sprinkler system of the Genetic Resources Center, Ambakele in Pallama of the Puttlam district, the sum had been debited to the Lab & Field Maintenance Account – 880/93/36 instead of being debited to the retention monies account. As such, the profit of the year under review had been understated by that amount.
- It is informed that corrective measures will be taken through the accounts for the year 2020
- Transactions be brought to accounts after verifying the accuracy of the Codes of Accounts.
- (i) The computer software purchased at the value of Rs. 315,810 for analyzing statistical data of the agro-economics division, had been brought to accounts as computer accessories instead of being shown under intangible assets.
- It is informed that corrective measures will be taken through the accounts for the year 2020
- Computer software should be shown as intangible assets in the accounts.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 39,691,558 as against the deficit of the preceding year amounting to Rs. 58,993,686, thus observing an improvement of Rs. 98,685,244 in the financial result. The increase in the stock as at the end of the year under review by a sum of Rs. 52,875,444 due to increase in the selling prices of coconuts and coconut saplings, had mainly attributed to the improvement of the operating result.

2.2 Ratio Analysis

The current ratio had reduced from 1:1.42 to 1:0.925 whilst the quick ratio had reduced from 1:1.04 to 1:0.41 from the preceding year to the year under review. The ratio of loss being 11.25 per cent in the preceding year had become a profit of 6.60 per cent. This was mainly attributable to the increase in the selling price of coconuts and coconut saplings.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

Audit Observation	Comment of the Management	Recommendation
(a) An expenditure of Rs. 13,767,434 had been incurred under Ministerial provision by the Coconut Research Board during 2000-2019 on researches aimed at suppressing coconut mites. The Coconut Research Board had made recommendations to suppress coconut mites during the period 1999-2014, but the Board could not make any recommendation to curb coconut mites since the year 2014. The calamity of coconut mites could not be minimized considerably through the recommendations made by the Coconut Research Board thus far. The Audit was reported that the reason attributable thereto was the practical difficulties faced in the field. As such, it was further observed that new solutions with practical approach should be discovered to suppress the coconut mites.	A longer period is necessary to conduct researches on a pest like coconut mites and provide recommendations. A period of 10-8 years would be spent to make recommendations on the researches being conducted on biological control and resistive species, and that is the norm for the researches of this nature. Recommendations could be made on pesticides through short-term researches, but using pesticides is neither practical nor sustainable in controlling a pest like this one. Our Board had made two recommendations earlier to suppress coconut mites. The practical difficulties faced by the farmers while implementing those recommendations, considerably impede the control of coconut mites. As such, it seems that they don't show interest thereon, and the necessity to discover practical approaches has already been recognized.	Practical solutions should be identified to curb the coconut mites.
(b) By the end of the year 2019, the Coconut Research Board had produced 1,571,075 coconut seedlings. However, only 11,930 coconut seedlings had been produced from the coconut species such as, Kapruwana, Kapsuwaya, and Kapsetha that had been introduced after the year 1998. That represented as low as 0.76 per cent of the total production of coconut seedlings. Accordingly,	The Coconut Research Board had targeted to produce 20,000-300,000 Kapruwana coconut seedlings per annum in conjunction with the Chilaw Plantations Limited during the years 2014/2013, and a coconut seed garden has already been established. Accordingly, coconut seedlings will be produced in due course. Additionally, production of Kapruwana, Kapsuwaya, and	New coconut seed gardens should be established thereby taking action to increase the production of Kapruwana, & Kapsuwaya coconut seedlings and popularize among the people.

the Board failed to maximize the production of coconut seedlings by establishing coconut seed gardens, and popularize the said coconut species among people by maximizing the production of coconuts.

Kapsetha coconut seedlings was commenced through hand pollination, and seedlings are being produced at present. Furthermore, a project proposal to establish Kapsuwaya, and Kapsetha seed gardens under special projects, had been submitted to the Treasury in 2019.

- (c) In order to establish a coconut seed garden to produce hybrid coconuts resistive to the Weligama coconut leaf wilt disease, the coconut seed garden, Weligama in extent of 16.15 acres had been obtained from the Coconut Cultivation Board on a 10 year lease. As for producing hybrid seedlings at the said garden, it had been planned to plant green Kundira as female plant and tall variety of Kundira as male tree. Nevertheless, the required numbers of male and female trees had not been separately identified, but 900 trees had been shown as the number of trees expected to plant at the garden. However, by the end of the year under review, only 306 female trees had been planted over an area of 05 acres of the entire area.

Discussions had been held with various institutions over a lengthy period of time to obtain a land for establishing a coconut seed garden for producing coconut seedlings resistive to the Weligama coconut leaf wilt disease, but a land could not be found. Finally, the coconut nursery in Weligama belonging to the Coconut Cultivation Board was obtained on lease, and based on the soil condition suitable for coconuts, a total of 306 female trees could be planted at the garden.

The number of parent trees required to produce hybrid seedlings resistive to the Weligama coconut leaf wilt disease, should be separately identified, and planted as planned, thereby taking action to succeed the project.

- (d) It was expected to freely provide 70,000 coconut saplings for 35,000 families at 02 saplings per garden in the Northern Province under the project to produce coconut saplings with higher yield for the National Coconut Replanting Programme that had been scheduled to be commenced in the year 2017 and completed by the year under review. However, only 20,000 coconut saplings had been distributed by the end of the

Under the project to produce coconut saplings with higher yield, coconut saplings were produced under this programme scheduled to be commenced in the year 2017 and completed by the year under review. Preparations were underway to distribute coconut saplings during the rainy season in the year 2018, but it was not so done as the required approvals could not be obtained due to the turmoil that prevailed

Project goals should be fulfilled with immediate effect.

year under review. Due to the delay in producing and distributing the coconut saplings, the Board was not able to replant coconuts as planned.

following the change in the Government. Then again, the distribution of coconut saplings had to be postponed until the latter part of the year 2019 owing to the draught in the Northern Province. At present, the rest of the 50,000 coconut saplings are being distributed.

- (e) Advances totaling Rs. 4,067,534 given to 08 institutions such as, University of Peradeniya, University of Kelaniya, Kotalawala Defense Academy, and Water Resources Board, had remained unsettled over a period of 1-5 years.

As the researches relating to the institutions of University of Peradeniya, University of Kelaniya, and Kotalawala Defense Academy, have not yet been concluded, those balances of advances, were shown in the account. However, they had been informed through letters that advances should be settled based on the amount of works already completed, and advances should be obtained afresh for further works. Furthermore, the Accounts Division has already received the documents required to settle the advances given to the Commissioner of Examinations, Sunflower Lanka Ltd, and the Water Resources Board.

The Board should take action to complete the relevant works within the specified period, thereby settling the advances.

- (f) The stock of chemicals worth Rs.3,544,338 purchased by the Board for conducting researches on control of pests and diseases, processing of coconuts, products associated with coconuts, and value added products, had remained unused over a period of 02 years.

Once the researches are planned, the chemicals required are ordered, and such chemicals are used in different quantities at different stages. It is not possible to obtain those chemicals in small quantities within a short period, and once the purchase order is placed, receipt of the chemicals is also time-consuming. As such, stocks of chemicals are maintained to facilitate the continuation of researches.

Stocks should be managed in a manner eliminating the excess stocks.

- (g) The sum of Rs. 28,558,853 recoverable to the Board as per the agreements relating to 09 scholarship holders who had not returned after proceeding abroad during the period 1992-2014, could not be recovered from the officers or the guarantors. Furthermore, the advance of Rs. 776,856 given to two officers for foreign tours in the year under review, had remained unsettled even by the end of the year.
- Based on the fact that the agreement entered into between the Coconut Research Board and the said 09 scholarship holders had been breached following their failure to return after proceeding abroad during the that period (2014-1992), cases have already been filed against 07 of them, and those cases are in progress. Additionally, the Attorney General's Department has been informed by the Coconut Research Board that legal measures be instituted against the persons, Mrs. P.G.C. Hewawithara, and Dr. S.C. Somasiri. As such, legal action will be taken in that connection in due course.
- The cases filed should be concluded expeditiously, and the monies should be recovered. Furthermore, the Board should make sure that the advances given to the officers for foreign tours are settled promptly at the end of the tour.
- (h) The employee policy of the Coconut Research Board had been approved in the year 2011. However, recruitments to the 05 posts of Senior Manager (Estate), Research Officer (Mechanical Engineering), Estate Superintendent, Technician (Printing), and Driver, could not be made during 03-08 years.
- Based on the service requirements of the Coconut Research Board, the staff had been approved through the Letter, No. DMS/E4/08/4/074/1-1 of the Department of Management Services, dated 2011.06.01. Due to difficulty in recruiting candidates who had met the basic qualifications of experience, and age limit, the vacancy in the post of Senior Manager (Estate) could not be filled. Although qualified applicants had applied for the post of Research Officer (Mechanical Engineering), they could not be recruited due to their failure in attending the interview. The vacancy in the post of Estate Superintendent could not be filled as the recruitments had temporarily been suspended by the Ministry of Finance. No recruitments could be made to the post of Technician (Printing) as qualified applicants had not responded despite the newspaper advertisements published in several instances. The 08 vacancies in the post of Driver could not be filled as the Ministry of Finance had temporally suspended the recruitments.
- Action should be taken either to fill the vacancies in those posts approved in the year 2011, or revise the employee policy in case of lack of qualified candidates.