

Coconut Research Board - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Coconut Research Board for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 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 the Financial 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 Board as at 31 December 2021 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 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, 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.

1.4 Audit Scope (Auditor's Responsibility on the Audit of 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.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the 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 Board;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources 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 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 the paragraph 44 of Sri Lanka Public Sector Accounting Standard No.03, the effect and value of an event that can be expected to effect to the future period should be disclosed in the financial statements, complaints have been made to the Fraud Investigation Bureau regarding the failure to pay the amount of Rs.6,334,159 which was stated in the financial statements to be collected from a buyer for the coconuts sold in the year under review, but no disclosure was made in this regard from the financial statements.</p>	<p>It is informed that from the year 2022, the impact of the events that can be expected to have an impact on such future periods and their values will be disclosed in the financial statements.</p>	<p>The effect of this transaction and its value that can be expected to affect future periods should be disclosed in the financial statements.</p>

- (b) As stated in paragraphs 44 and 45 of Sri Lanka Public Sector Accounting Standards No. 11, assets purchased from project grants, received to the institution had not been amortized. Due to this, it was observed that the value of grants of Rs.130,657,057 shown in the financial statements is not correctly represented.
- (c) According to the paragraph 17 of Sri Lanka Public Sector Accounting Standard No. 20, video tapes as scientific or technical knowledge, commercial videos should be recognized as intangible assets and should be written off over their useful lives. Nevertheless, Rs.5,775,000 incurred for video programs related to the usage of coconuts, advertised on television, radio and social media with the aim of promoting long term local and foreign technologies had been written off as research expenses in the year under review. Due to this, the surplus and intangible assets of the year under review were shown in the financial statements were understated from that amount.
- Difficulty in identify the assets purchased many years ago according to each project and the problems of depreciating certain assets of completed projects have affected to this, but I would like to inform that adjustment will be made from the year 2022.
- Expenditures incurred during the research phase, not with an expectation of future economic benefit but with the expectation of public awareness, are not recognized as intangible assets.
- Assets purchased from project grants must be amortized.
- Scientific or technological knowledge, commercial videos etc. should be identified as intangible assets.

1.5.2 Accounting Deficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Although the cost incurred by the board for improving the infrastructure of estates was stated in the financial statements under non-current assets, the details regarding the adjustments of Rs.13,229,854 made for those assets in the year under review were not submitted to the audit. So the accuracy of these assets could not be confirmed during the audit.	The estate improvement accounts show expenditure incurred on improvements in plant breeding at all Research and Genetic Resource Centres of the Institute and a need did not arise to identify what the expenditure was.	It should be clarified what adjustments are related to infrastructural improvements in estates.
(b) Invoices for 762,522 coconuts, auctioned in 51 auctions held between 13 May and 23 December 2021 were not issued. As a result, the inventory was overstated in the financial statements of the year under review and the sales revenue and debtors were understated by Rs.45,788,857 each.	Invoices for the value of all coconuts sold between 13 May 2021 and 23 December 2021 were issued and finalized in January 2022.	The invoices should be issued immediately after the coconut auctioned.
(c) In calculating the net cash flow under operating activities, due to prior year adjustments, biological assets and current assets and liability items have been reconciled incorrectly, the net cash flow from operating activities more from Rs.102,986,393 and the net cash flow under financing activities was shown to be less of Rs.154,071,712 due to the fact that the adjustments made to the assets under financing activities were not properly reconciled.	Will take action to correct.	Cash flow statement should be prepared correctly.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
At the end of the year under review, out of the debtor balance of Rs.30,454,286, no action was taken to collect Rs.433,487 which has been outstanding for more than 5 years.	It is informed that recovery will be done.	Actions should be taken for recovery.

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

Reference to Non-compliance with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 143(3)(a)	All the money received should be deposited in bank regularly, Rs.12,052,646 which was collected by the Pallama Genetic Recourse Centre in the year 2021, had been deposited delay in between 07 and 42 days.	Due to Covid situation in the country there were delays in the banking of various income received.	All money received should be deposited in the bank regularly.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a surplus of Rs.151,245,792 and the corresponding surplus in the preceding year amounted to Rs.19,639,622. Therefore an improvement amounting to Rs.131,606,170 of the financial result was observed. The reason for the improvement are increased the income of the year under review by Rs.43,427,570 and the expenditure decreased by Rs.88,178,600 compared to the preceding year.

2.2 Trend Analysis of Major Income and Expenditure Items

Although the budgeted income of the year under review was Rs.558,504,483, an income of Rs.650,783,610 was earned which was Rs.92,279,127 or 16 percent more than that. In the comparison between the estimated and actual expenditure, 02 expenditure heads had spent 18 percent and 33 percent less than the estimated expenditure respectively and 93 percent more than the estimated expenditure of one expenditure head. Accordingly, it was observed that the budget document has not been used as an effective management control tool.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
----- Although 72,623 coconuts worth Rs.4,484,947 were auctioned to a private company in Colombo area on 04 occasions in the months of May, June and July 2021, were not paid and taken away. The board had incurred a loss of Rs.1,473,894 as they were kept for between 06 and 09 months till 10 February 2022 and were resold for Rs.3,011,053 after they sprouting.	----- In view of the COVID – 19 epidemic situations in the country, coconut buyers were delayed in removing the coconut due to the quarantine curfew.	----- Action should be made to improve the internal control related to the sale of coconuts and should be take disciplinary actions against officials who have not fulfil their responsibilities.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
----- (a) Although circulars have been issued regarding the harvesting of coconuts in the coconut plantations owned by the Board, adequate instructions were not given on how to reduce the percentage of falling coconuts, the number of coconuts to be plucked annually, how deal with brown coconuts, rotten coconuts	----- Activities have been done according to the correct methods in the plantations of the Coconut research Institute. The percentage of fallen coconuts in a commercial level coconut plantation that is normally properly maintained is close to 20 percent.	----- By giving proper instruction through circulars, efforts should be made to successfully manage the harvest by getting the coconut harvest favourably.

and damaged coconuts. Because of this, it was not possible to observe that the coconut harvest of the board has been managed favourably and successfully.

- (b) Legal action was taken to recover an amount of Rs.27,529,683 due to Board from 08 officers who received scholarships in abroad and did not return to work during the period from 1992 to 2004.
- (c) Air ticket purchases made in the year 2019 amounting to Rs. 68,500 and travel advances given to two officials amounting to Rs.322,073 were not settled.
- (d) 04 cases were filed against the Board by third parties regarding service issues and violation of fundamental rights and were still being brought forward without resolution.
- (e) Renovations were not done for 07 quarters and a circuit house which have become unusable for many years and a lake that could not maintain proper water capacity due to the breach of the embankment in Ambakele Estate.

Comments have not been given.

Because of the approval of the National Budget Department was not received, the settlement of these advances was delayed.

Pending.

Quarters and circuit house have been renovated. Bill of quantity (BOQ) has been prepared and the money required for the reconstruction of the dam has been allocated and in the future tender prices will be called and the work will be done.

Legal action should be taken to recover money from officers and guarantors.

Arrangements should be made to settle this amount immediately.

Proceedings should be completed promptly. Employees should be managed in a manner that does not lead to lawsuits.

These assets owned by the Board should be repaired and maintained as required and must be used effectively.

3.3 Transactions of Contentious Nature

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) 07 cheques of Rs.6,334,159 obtained for 96,816 coconuts sold by the Board to 02 companies in May and June 2021 were dishonoured and the coconut stock was allowed to	Cheques were given on several occasions for dishonoured cheques but they were also dishonoured. A complaint has been lodged with the Colombo Fraud Investigation Bureau for this. Notifications were	Actions should be taken to correct the existing deficiencies in the internal control related to the sale of coconuts, to conduct the legal

continue to be removed before the cheques were cleared. Out of these, the cheques of the company which sold 86,816 coconuts for Rs.5,627,159 continued to be dishonoured and regardless of this, another 218,335 coconuts worth Rs.12,659,704 were given to the company and the invoice was not issued until the end of the year. Including these stocks of coconuts Rs.45,788,857 due for 762,522 coconuts sold in 51 auctions, late fees and fines were not accounted for and collected according to the series of coconut auction rules of the Coconut Development Authority. It was not observed that management paid proper attention to these controversial transactions.

- (b) It was a controversial matter that there were 21 cows available for milk at the Ambakele Genetic Centre belonging to the Board but no milk sales income was reported after March 16, 2018. Furthermore, it was observed that the administrative work was not done properly because of field and administration work of this 318.5 acre Centre was done by an Assistant Estate Superintendent and all the office work was done by a check roll based labour.

issued authorizing the removal of coconuts based on receipt for cheques received from the sale of coconuts.

Although there are 21 cows, since 2018 no milk sales income has been reported due to lack of workers to get milk. A new worker will be hired and milking activities will be carried out in the future. An officer is going to be employed for the long- standing vacant position of clerk in the estate.

proceedings properly in order to recover the money due and to take disciplinary action against the responsible officials.

These resources owned by the Board should be utilized optimally. An investigation should be conducted on non-accounting of milk income

3.4 Operational Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) 02 water supply systems were established at a cost of Rs.26,425,215 to supply water to 4015 coconut trees in the 75 acre area of Ambakele Genetic Resource Centre and 8000 coconut plants in the 200 acre area of Pallama Genetic Resource Centre. But as there was not enough water in the 04 tube wells built for that purpose, water was collected in 04 tanks and a well and the field was divided and water was supplied once in 07 days and a tree did not get enough water. The coconut plantation in Pallama Genetic Resource Centre in an area of 215 acres was not covered by this water supply system. As a result, it was not observed that these water systems produce the desired results.	It is currently functioning properly by avoiding the existing deficiencies.	Actions should be taken to implement the projects, based on the feasibility studies and correct the existing deficiencies in the water supply systems and implement them successfully.
(b) As per the Estate Management Circular No. 02/2019 dated 07 July 2019 of the Board, arrangements should be made to the sell coconuts as soon as the coconuts are plucked but out of the 4,123,986 coconuts plucked by the 10 Genetic Resource Centres from January to November 2021, 939,933 or 22 percent had not been sold by 31 December 2021.	During the months of January and February 2022, all seeds coconuts and sold coconuts related to the year 2021 have been removed.	Arrangements should be made to sell coconuts as soon as the plucked. Disciplinary action should be taken regarding the poor performance of the officers who delayed the sale.

- (c) Out of the 10 Genetic Resource Centres belonging to the Board, while the Poththukulam Centre obtained a coconut harvest of 12 shifts in the year 2021, the harvest obtained in the other 09 centres was only 07 or 08 shifts. Not plucking the coconuts at the right time will affect getting the optimal coconut yield, but the responsible parties have not paid attention to it.
- Considering the technical aspects of each Research Centre or Genetic Resource Centre, the number of coconuts harvested annually is determined and the estimated coconut yield is prepared.
- An investigation should be done on the decrease in the number of coconut shifts. Proper instructions should be issued regarding the coconut harvesting.
- (d) According to the instructions for nursery control and selection of coconut seedlings mentioned in the instruction sheet No. 2 of the Coconut Research Institute, non-sprouting and late sprouting seed nuts should be removed within 05 months of planting and its percentage was stated as 18 percent. Nevertheless, the number of seedlings that were unsuccessfully removed in 05 months from 99,670 hybrid seeds of several varieties planted in the 2020 Yala season and 2021 Maha season at Pallama and Ambakele Genetic Resource Centre was as high as 28,098 or 28 percent and the attention of the responsible parties had not been drawn to this.
- According to the recommendation of the Genetics and Plant Breeding Department of the Coconut Research Institute, about 70 percent of coconut plants are sold after being selected and certified as high quality coconut plants.
- The reason for the increase of 10 percent in the removal percentage than the allowed percentage of 18 percent should be found and necessary remedies should be applied.
- (e) The Board did not specify a year for the completion of 08 long-term researches commenced between 2015 and 2021 and another 08 research projects were in progress for a period of 9 to 21 years. Also another 21 researches started between 2016 and 2019, which were planned to be completed in 2021 could not be completed. As a result, it was
- It is common for many researches related to coconut, a perennial crop, to take a long time. Researches that do not have a year of completion will be updated and the year of completion of the research will be mentioned in the action plan of 2023. The internal research committee evaluation required for this purpose are planned to be conducted in the
- Research projects that have passed for a long time should be evaluated and completed in an effective manner and used for the development of the field.

observed that the officer who started the research did not get the opportunity to finish it and the changes in technology over time would affect the application of the results of the research for the purpose of the board.

month of August and September 2022.

3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>According to the staff information of the institution as at 31 December 2021, 115 of the 391 approved staff were vacant and this was 29 percent of the approved number of employees. Also, 21 out of 56 approved research officers including head of department, senior research officer of 9 research divisions of the board were vacant which 37 percent of the approved number. It is observed that this situation affects the purpose of establishing the institution in not being properly fulfilled.</p>	<p>Due to non-availability of internal officers who have completed the basic qualifications for senior level internal recruitment and lack of qualified applicants and The vacancies will be filled as soon as the National Budget circular allows the deferred recruitments.</p>	<p>Arrangements should be made to fill the vacancies or to revise the approved number of employees.</p>