

Coconut Development Authority - 2014

The audit of financial statements of the Coconut Development Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 43 of the Coconut Development Act, No 46 of 1971. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Subsections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

According to the Sri Lanka Public Sector Accounting Standard 07, action had not been taken to revalue the vehicles still in use, out of the fully depreciated vehicles.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Sums of Rs.8,796,480 and Rs.136,970 recoverable from the Sri Lanka Rupavahini Corporation and the Sri Lanka Broadcasting Corporation respectively to the Authority, had not been shown as receivables in the accounts.
- (b) The loan amounting to Rs.2,000,000 granted to an Agrarian Company in the year 2006 by the Authority, should be paid without interest in equal installments within 06 months since the date on which the loan had been granted in terms of the agreements. Even though a sum of Rs.1,450,000 further receivable there from, had been a current asset, that amount had been shown under non-current assets.
- (c) Cash misappropriated by an officer of the Authority and interest thereon amounting to Rs.1,845,676 had been shown in the accounts as at 31 December of the year under review and there is a risk of recovering this loan contrary to the Concept of Prudence and the interest receivable thereon as well had been brought to account annually. As such, income and assets had been overstated in the financial statements.

2.3 Accounts Receivable

The following observations are made.

- (a) The interest for a loan amounting to Rs.26,715,037 granted to a company owned by the Government in the year 1985 had been computed annually and the interest computed up to 31 December of the year under review amounted to Rs.28,081,263.

However, this interest had been fully written off in the year under review without an approval. A sum of Rs.31.55 million had been granted as the loan without interests to the same institute in the years 2002 and 2004 and that amount as well had not been recovered to the Authority.

- (b) The Authority had failed to recover the fees receivable from the desiccated coconut mill owners and the ground rent receivable for the auctions of fresh coconut and copra amounting to Rs.1,801,696 up to 30 June 2015.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year under review had resulted in a surplus of Rs.15,457,175 as compared with the corresponding surplus of Rs.36,419,413 for the preceding year, thus indicating a deterioration of Rs. 20,962,238 in the financial results. Even though the entire income comprising the Government Grants had increased by Rs.57,605,867, the increase in other expenditure comprising researches and development and trainings by Rs. 75,531,318 had mainly contributed to this deterioration. The total income of the Authority consisted of 71 per cent from the Treasury provisions, 13 per cent from the operating income and 16 per cent from the sundry income as well.

4 Operating Review

4.1 Management Inefficiencies

The following observations are made

- (a) A proper marking scheme had not been followed in selecting products / exporters to participate in trade exhibitions held in Moscow, Russia and Essen in Germany in the year under review for introduction of products of Coconut related Industrialists to the international market and an authorized person for the Authority had not signed the agreements entered into between the exporters and the Authority. Even though the financial bonds submitted by them had been released, evidence had not been made available to audit that attention had been paid on matters which should be considered and the progress of the trade exhibition in Moscow, Russia as well had not been reviewed.
- (b) A private firm had been selected by the Authority amalgamated with the Sri Lanka Standards Institution in July of the year under review for the purpose of introduction of Hazard Analysis and Critical Control Point (HACCP) Standard Certification for Food Safety Management System of 45 desiccated coconut mills. The Authority had entered into an agreement with that firm at a total value of Rs. 4,050,000 and out of that, 20 per cent representing the initial advance amounting to Rs. 810,000 had been paid in the same month as the first stage. According to the agreement, submission of documents necessary for certification of 45 desiccated mills at the second stage

should be completed on 31 January 2015. Nevertheless, that activity had not been completed up to June 2015.

- (c) A sum of Rs. 350,000 had been paid to a consultant for the preparation of a methodology necessary for the procedure of obtaining a brand name on the approval of the Board of Directors for introduction of coconut products of Sri Lanka to the international market under a brand name by maintaining the standard and the quality of the coconut products in good condition. That brand name had not been obtained up to 15 June 2015 due to entering into an agreement without proper understanding in respect of the whole procedure relating to obtaining that brand name. Further, a sum of Rs.135,000 had been paid to an outside person for designing a logo required to the procedure of obtaining the brand name without calling quotations.
- (d) The University of Colombo and the Authority had entered into an agreement on 03 June 2014 for computation of quantity of coconut cultivation lands and the number of coconut trees by the Geographic Information System Technology. According to the agreement, the total estimated expenditure had been Rs.2,587,500 and 20 per cent of it representing Rs.517,500 had been paid to the University of Colombo on 15 December 2014. Even though that purpose should be completed by 05 February 2015, a report including the results of computation had not been received up to 31 May 2015.
- (e) The Authority had selected the Sri Lanka Rupavahini Corporation and the Sri Lanka Broadcasting Corporation as advertising firms for promotion of coconut milk, coconut milk powder and coconut cream instead of coconut nuts with a view to uplifting the coconut export income by minimizing the wastage of coconut in domestic consumption. The Authority had paid a sum of Rs.9,344,832 as advertising cost to the Sri Lanka Rupavahini Corporation for the period from 14 August 2014 to 13 April 2015 and a sum of Rs.3,936,228 as advertising cost to the Sri Lanka Broadcasting Corporation for the period from 01 September 2014 to 31 December 2014. However, the Sri Lanka Rupavahini Corporation and the Sri Lanka Broadcasting Corporation had informed the Authority that out of those amounts, sums of Rs. 8,796,480 and Rs. 136,970 had been saved respectively with them. Nevertheless, it was confirmed that according to the financial statements of the Sri Lanka Rupavahini Corporation, there was no money to be repaid to the Authority and the receivable amount to the Authority from the Sri Lanka Broadcasting Corporation had been Rs.1,269,922. Further, the Authority had not presented adequate information to audit to confirm that the Sri Lanka Rupavahini Corporation and the Sri Lanka Broadcasting Corporation had carried out advertising activities.

4.2 Personnel Administration

The approved cadre and the actual cadre as at 31 December 2014 had been 259 and 178 respectively and as such there were 81 vacancies in posts relating to the operating activities of the Authority by the end of the year under review.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Utilization of Funds
- (c) Staff Administration
- (d) Operating Control