

Coconut Research Board – 2017

The audit of financial statements of the Coconut Research Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, 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 Board in terms of Section 14(2)(C) of the Finance Act appear in this Report. A detailed report in terms of section 13 (7)(a) of the Finance Act was issued to the Chairman of the Board on 18 May 2018.

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 Auditing 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 the 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. Sub-sections (3) and (4) of 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 Research Board as at 31 December 2017 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

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standards 01

According to the section 48 of the standard assets and liabilities should not be offset each other unless required permitted festival advance given for labourers and special salary advances Rs.68,475 and Rs.90,865 respectively offset with negative balancers and the net balance of Rs.467,519 and Rs.181,581 shown in the other current assets had been stated in the financial statements.

(b) Sri Lanka Public Sector Accounting Standards 02

(i) Interest income on fixed deposit amounting to Rs.6,190,814 shown in the statement of financial performance it was shown in the cash flow statement under non-financial changes reason into that cash flow generated from operational activities was shown less by Rs.713,269.

(ii) Although according to the cash flow statement under investing activities interest income receiving in cash for the fixed deposits was Rs.5,011,893 but it was shown under cash flow generated from investing activities as Rs.6,190,814.

(c) Sri Lanka Public Sector Accounting Standards 07

(i) According to the section 47 of the standard once every 3 years or 5 years properly, plant and equipment should be revealed land cost at Rs.1,522,283,874 had not been revalued by the board after the year 2005.

- (ii) Although fully depreciated property and plant which is amounting to Rs.208,560,016 had been further used due to reviving of the effective lifetime of the non-current assets as per section 65 of the standard. Accordingly an action had not been taken to revise the estimated error as per the Sri Lanka public sector accounting standard No.03.

2.2.2 Accounting deficiencies

The following observations are made.

- (a) The value of the land belongs to the board research Centre situated at Thabbowa in extent of 5 acres had not been valued and taken to the financial statements.
- (b) Receivable fixed deposits interest relating to the under review amounting to Rs.507,637 had not been taken to the financial statements.
- (c) Foreign grants received during the year under review amounting to Rs.6,616,827 relating to the previous year had been brought to account as income of the Year under review the profit for the year under review had been shown in excess by that amount.

2.2.3 Lack of Evidence for audit

Evidence shown against each accounts items shown below was not furnished to audit.

Item of Accounts	Value	Evidence not furnished
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	Rs.	
(i) Debtors	7,541,354	} Confirmation Letters } Annual Board of } Survey reports
(ii) Creditors	1,916,781	
(iii) Library books and Periodicals	3,055,587	
(iv) Laboratory Instruments	2,357,168	

2.3 Receivable Accounts

Following observations are made

- (a) Out of the debtors existing at the end of the year under review amounting to Rs.7,750,786 a sum of Rs.539,737 had not been recovered more than 5 years period.
- (b) Security deposit amounting to Rs. 245,650 receivable from 13 institutions existed at the last date of the year under review remaining more than 5 years and necessary action had not been taken by the board to recover that.
- (c) There are two cash books belong to the board and error in entering of receipt of Rs.126,000 action not taken to correct it which had been shown in financial statements as transist in cash.

- (d) Advance money for pre work amounting to Rs.159,936 given to private institution in the year 2012 for new aluminium doors not settled even as at 31 December 2017.
- (e) Retention money amounting to Rs.407,286 had been recovered from 20 private Institutions more than 1 year and the balance sum of Rs.424,352 retain from cess fund more than several years not settling it and brought forward.

2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

Non- compliances with the following laws, rules and regulations were observed.

Reference to Laws, Rules and Regulations

Non- compliance

- (a) Circular No.PED/03/2017 dated 11 December 2017 of the Ministry of finance and mass media.

Though it should be paid Rs.10,000 per 36 permanent officers of the Estate Management Section as bonus, contrary to that Circular a sum of Rs.883,272 had been paid as bonus on the basis of basic salary of the relevant employees on the approval of the Director Board.

- (b) Circular No.1/2008 Section 02 dated March 2008 of the Treasury Operations.

Providing funds as direct or indirect to the institutions by the government and assigned the final liability to government as direct or indirect the activities relating to the funds a proper investment procedure should be initiated to give good results give to the National economy even though a sum ranging from Rs.8 million to Rs.103 million had been retained in 04 bank current accounts idling during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements present the financial result for the year under review had been a surplus of Rs.26,752,992 as compared with corresponding surplus of Rs.28,733,096 for the preceding year, thus indicating a deterioration of Rs.1,980,104. Increase of the research Centre income by Rs. 13,740,363 increase of salaries and wages benefit expenses by Rs.15,471,987 relative to the preceding year had been the main reasons for the above deterioration.

while analysis of the financial results in 04 preceding years and the year under review even though surplus had been excised in the year 2013 had increased up to Rs.70,181,762 in the year 2014 had deteriorated continuously in the year 2015 the surplus decreased up to Rs.26,752,992 in the year 2017. However depreciation for non current assets and tax paid to the government the contribution of Rs.211,637,093 in the year 2013 had increased up to Rs.251,806,285 with fluctuations of the year under review.

3.2 Analytical financial review

The following observations are made

- (a) The current ratio of the year under review had been reduced from 1:1.74 to 1:1.35 as compared with the preceding year and quick assets ratio reduced from 1:1.33 to 1:0.96.
- (b) The profitability ratio of the year under review has been reduced from 5.5 per cent to 5.04 per cent as compared with the preceding year.

3.3 Legal cases initiated against or by the Institution

The board had filed 9 cases against 09 external Institutions and persons in the courts claiming compensation totalling Rs.15,629,888 and 03 cases had been filed by external parties against the board.

4. Operation review

4.1 Performance

4.1.1 Activity and Review

The following observations are made

- (a) The yield of coconut amounting to 5,689,864 for the year 2016 in 10 estates belongs to the board was reduced up to 3,917,072 as 31 per cent during the year under review. Although the yield of coconut for a acre should be between 2400 fruits 3,000 fruit out of 10 estates belongs to the board 5 estates coconut yield was low amount and annual average coconut yield for a tree should be 60 fruit but annual average coconut yield of five estates belong to the board was ranging from home 21 fruit to 48 fruit.
- (b) According to the action plan of the board two research projects at estimated cost amounting to Rs.543,000 had planned to be implemented during the year under review but it not implemented by the board. Further estimated cost of Rs.7,617,000 16 research projects scheduled to be completed during the year on the review performance level was ranging between 8 per cent to 10 per cent. Lack of research officers, Non receiving of chemical items and delay in purchasing of chemical instruments was mainly affected to this.

- (c) Although allocation of Rs.4 million had been made according to the action plan for implement infrastructure and development 03 projects but that project not implemented due to the reason goods could not be purchased in due time.
- (d) Even though the research activities in respect of introducing of new varieties of coconuts were continuously done by the division of Genetic and plant breeding of the board an introduction of new coconut varieties had not been done after the year 2013. Out of the six varieties of coconuts introduced such as kapruwana, kapsetha, kapsuwaya had not been expanded among the people.
- (e) It could not be produced Villowpitha mite packets to prevent the attack coconut mite and non-preparation of a method to keep Villopitha mite packets for tall coconut trees the number of mite attached coconuts were 342,051 in 10 coconut estates belong to the board had increased up to 467,034 by 36 per cent during the year under review.

4.2 Management Activities

The following observations are made.

- (a) Although the approval of the director board and the ministry should be obtained for research results trade off in connection with other countries important as national which is search by the coconut research board without obtaining Such a approval research result of the issues planning Technology had being trade off with a Indian foreign company.
- (b) Even though the genetic resources centre in makandura was established as a seed coconut Garden from 21 July 1984 obtaining coconut seeds had been ceased due to the untimely the damage of coconut palms action had been taking to hold as a exemplary of inter cropping.

4.3 Idle and Underutilized Assets

Even though a Heat conservation unit had been established in the year 2008 at a cost of Rs.1,719,250 in Bandirippuwa Research centre for the purpose of drying copra instead of emission of the heat to the environment in the production of charcoal from coconut shells that was being idle on the reasons of not done the repairs without utilization since the year 2012 up to the end of the year under review.

4.4 Staff Administration

The approval cadre of the Board was 391 and the number of actual cadre was 287. It was shown 104 vacancies in 31 posts. Accordingly because of 27 per cent vacancies existed from the approved cadre thus it was a barrier to carrying on the activities of the Board efficiently.

5. Sustainable Development

5.1 The Achievement of Sustainable Development Goals

Every government institution should work in terms of circular No. NP/SP/SDG/17 of 14 August 2017 issued by the secretary to the Ministry of National Policies and Economic Affairs and the '2030 agenda' of the United Nations for Sustainable Development and the Coconut Research Board had been aware of how to take action in respect of functions coming under its scope relating to the year under review. The following observations are made in this connection.

- (a) To achieve the sustainable development goals the activities identified by the Board had not been included in the Annual Plan and to fulfil that functions necessary financial allocations had not been included in to the annual budget.
- (b) Although it is vital in existing correct data system to measure the correct performance of any activity. The Board had not taken action to create a correct data system to measure the achievements of the sustainable development targets.

6. Systems and Controls

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

Areas of Systems and Controls

Observations

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|------------------------------------|--|
| (a) Accounting | To be act according to the public sector accounting standards and non-revaluation of assets which were fully depreciated. |
| (b) Human Resources Administration | (i) Action not taken to recruit the officers in existing vacancies in accordance with the scheme of recruitment.
(ii) Even though the accuracy of the certificates relating to the educational and professional qualifications of the officers not confirmed from those institutions. |
| (c) Estate Management | Necessary action not taken to increase the coconut yield, to introduce new coconut varieties and to suppression cultivation of coconut vermin deleterious. |