

## Coconut Cultivation Board - 2018

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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 Cultivation Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, the statement of, 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 2018, 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

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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 (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

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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 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 Auditor's Responsibility in Auditing Financial Statements**

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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 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 to cease to continue as a going concern.
- Evaluate 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 Comments on Financial Statements

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

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The following non-compliances were observed.

Non- compliance	Comments of the Management	Recommendation
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<p>(a) Due to the non-capitalization of the buildings which were completed in the preceding year and being used amounted to Rs. 23,939,251 shown in the work-in-progress account in terms of Paragraph 14 of Standard No.07 , fixed assets were understated by that amount in financial statements and as per the depreciation policy of the Board the depreciation expense amounted to Rs. 1,242,124 had also not been adjusted in the financial statements. As a result, the profit for the year under review had been overstated by that amount.</p>	<p>Although the construction related work has been completed, as it was failure to submit technical reports of completion of work, failure to submit bills relating to advance payment and delays in submission of final bills to Finance Division, the corresponding values are shown in the work-in- progress account.</p> <p>Due to transactions were not properly occurred for the actions process among accounts , an adjustment for depreciation was not done as at 31 .12.2018 .</p>	<p>Since they are used after completion of the construction works as per the Standard, those assets should be accounted for as fixed assets obtaining the relevant reports expeditiously and depreciations related to those assets should also be accurately calculated and shown in the financial statements.</p>

- (b) Although when recognizing the biological assets initially it should be measured to fair value after deduction of cost to sell in terms of Paragraph 16 of Standard 18, a sum of Rs. 28,545,410 had been shown as biological assets at the cost in the financial statements. The projects such as cattle and buffalo farming, goat farming, and sheep farming are being implemented in the 12 Model Coconut Gardens of the Coconut Cultivation Board. These stock of animals are valued at the less amount of the fair value or sale price. But stock was not valued at the deduction of cost to sell from the fair value as per the Public Sector Accounting Standard No. 18. Actions will be taken to value the stock accurately in the next year. Biological assets should be valued initially in order to reduce the cost of sales from fair value in the financial statements as per the Standard.
- (c) Although the Actuarial Valuation Method should be followed periodically for the calculation of employee gratuity in terms Standard 19, the gratuity provision had been shown in the financial statements as Rs. 125,707,535 without assessing such an Actuarial Valuation as at 31 December 2018 . The employee gratuity calculation of Coconut Cultivation Board has been valued as at 31.12.2010 just as it has been so far. The necessary actions for the calculation of gratuity of employees will be carried out in the next year in accordance with Sri Lanka Public Sector Accounting Standards No. 19 . Employee gratuity provisions should be calculated and shown in the financial statements based on the life expectancy method as per the Standard.

## 1.5.2 Accounting Deficiencies

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The following Accounting Deficiencies were observed.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) As a result of not making provisions for gratuity amounted to Rs. 919,002 for 08 employees during the year under review the profit of the year had been overstated by that amount.	Whilst preparation of the document of gratuity provision of Model Coconut Gardens as at 31.12.2018 , the gratuity value to be allocated was not included in the document due to a certain mistake. Accordingly, the profit for the year under review was decreased by a sum of Rs. 919,002. Actions will be taken to correct that mistake in future.	When calculating bonuses, it should be accurately calculated and shown in the financial statements.

- (b) Even though the value of the poly bags stock at the end of year under review as per the Board of Survey was Rs. 15,009,488, that value was stated as Rs. 13,799,888 in the financial statements the profit in the year had been understated by a sum of Rs. 1,209,600 .
- Actions will be taken to correct that mistake in future.
- The stock should be accurately calculated and shown in the financial statements.
- (c) Because of over adjusting of the interest income, not adjusting the tax provisions and the paid taxes accurately, understatement of net cash flow by a sum of Rs. 12.2 million in the cash flow statement and since the working capital adjustments were not properly adjusted the net cash flow generated by it had been overstated in the cash follow statement by a sum of Rs. 39.2 million . Therefore, it could not be satisfied in audit in respect of the accuracy of the cash flow statement.
- Even though it should be adjusted interest income as Rs. 1,369,060, tax provision as Rs. 34,216,849, and the taxes paid as Rs. 8,507,424 under non-cash adjustments in the cash flow statement, the arrangements will be made to correct the error occurred because of a different value with regard to that was adjusted in the cash flow statement.
- The management should take actions to set the cash flow statement properly whilst preparation it.

### 1.5.3 Lack of Evidence for Audit

Item	Amount Rs.	Lack of Evidence for Audit	Comments of Management	the Recommendation
Debtors	161,268,836	} Balance Confirmation Letters	Although the Balance Confirmation Letters of debtors and creditors had been sent annually to the relevant sections, since the Management Assistant who was in charge of the subject in	The relevant parties should be made aware of the submission of balance confirmations directly to the audit.
Creditors	299,633,612			

the year 2018 had obtained maternity leave that activities have been missed. Actions will be taken to correct this error in the next year.

## 1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though it had elapsed more than 05 years period actions had not been taken to recover a sum of Rs. 2,308,029 receivable from Model Coconut Gardens and a sum of Rs. 4,596,475 receivable from nurseries even by the end of the year under review.</p>	<p>Although a sum of Rs. 150,500 and a sum of Rs. 4,445,975 respectively to be received to the Board from the Regional Offices in Matale and Jaffna from the year 2015 for the coconut seedlings provided in order to Divi Neguma National Programme, Due to changes in Divi Neguma Project since the change in the government that came to power in 2015 it was impossible to recover the money from District Secretariats . Actions will be taken to write off these values with the approval of the Ministry and the Board of Directors.</p>	<p>The Management should implement the necessary measures to recover the receivables remained for long period.</p>
<p>(b) Even though it had elapsed more than 05 years period actions had not been taken to settle a sum of Rs. 2,742,150 payable for the Gliricidiya Project and a sum of Rs. 900,000 payable to the Cooperative Societies of Coconut Growers even by the end of the year under review.</p>	<p>Since a sum of Rs. 2,742,150 received from Crystal Lanka (pvt) Ltd. for the Gliricidiya Cultivation Project implemented in the Model Coconut Model Gardens was a responsibility of a Coconut Cultivation Board until that project is completed are stated as a liability in the financial statements. This programme is over by now</p>	<p>Necessary measures should be taken to settle the payments in due and if not , arrangements should be made to take to the income.</p>

and these balances will be recorded in the next year considering as an income. Similarly, the value of Rs. 900,000 provided to the Coconut Cultivation Board by the Cooperative Societies of Coconut Growers also will be recorded in the next year considering as an income.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulation 570 and 571 of Democratic Socialist Republic of Sri Lanka	Actions had not been taken in respect of Tender Deposits for more than 05 years amounted to Rs. 110,500 in terms of Financial Regulation.	Arrangements will be made to find out regarding Tender Deposits amounted to Rs. 110,500 for more than 05 years and to transfer to Revenue Account in the next year.	Arrangements should be made in respect of Tender Deposits remained for long in accordance with Financial Regulations.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 14,885,097 and as against to that the deficit of the preceding year was Rs. 20,936,962. Accordingly, a growth of Rs. 35,822,059 in the financial results was observed. The increase of government grants and recurrent grant and decrease in development expenses had mainly attributed to this .

### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) Construction work of another additional part for the main office building of the Board commenced in 2014 at the cost of Rs. 56,115,671 and prior to entering into the contract with the contractor, the building construction plan had not been approved by the relevant agencies. Even though a sum of Rs. 14,388,275 had incurred for this construction up to now, due to the delay of nearly one year for obtaining approval and the contract had been abandoned without carrying out construction work due to the contractor could not perform the construction work at the agreed price.</p>	<p>Although the provisions of the year 2014 have been applied as the necessity, according to the Treasury provisions, the Board could allocate only Rs. 7,000,000 the work was not commenced. Since a sum of Rs. 6,881,850.00 has been allocated for this purpose in the year 2015 also, the procurement activities were commenced. Due to the delay in obtaining approval building from the Urban Development Authority for these constructions the Coconut Cultivation Board had to re-enter to the contract with the contractor on 16.01.2018. Accordingly, only the front side work was started by the contractor. As there was overall construction has not progressed the Coconut Cultivation Board decided to call a meeting. Accordingly, the letter of the contractor dated 17.07.2017 stated that it would take three months to complete the work on the front section which is being carried out by now.</p>	<p>Actions should be taken to award contracts after obtaining the approval from the relevant institutions before commencing the construction.</p>
<p>(b) Although the retention amount of the contractor relating to the construction of the Kataragama Circuit Bungalow should be released on the recommendation of the Contract Consultant at the end of the defects liability period, without the recommendation of the</p>	<p>The contractor has been notified by the letter No. E / 7 / CONS / RENO / KATHARA dated 25.09.2010 that the actions will be taken to release the retention money after rectifying of the list of shortcomings shown. However, no construction work has been carried out so far, steps will be</p>	<p>When releasing of the retentions of the contractors it should be made on the recommendations of the relevant consultant.</p>



consultant by the Board 75 per cent or a sum of Rs. 562,808 had been released before the end of the defects liability period. As a result the contractor did not rectify any identified defects the retention amount was insufficient to recover that amount.

taken in this regard discussing of necessary action to be taken in the future.

- (c) A number of 450,000 and 200,000 Polybags that did not meet the specifications were purchased in the years 2017 and 2018 respectively and due to the failure of Management to remove these polythene bags from the store, it was observed in audit that there were no warehouse facilities to stock the newly purchased polybags safely.
- With the decision of the Departmental Procurement Committee to use the number of 450,000 poly bags packed in 02 poly bags each for the production of coconut plants, steps have been taken to use that stock of poly bags for the production of poly bag seedlings by now. The Institution has been asked several times to remove the 200,000 poly bags remained in the warehouse.
- Before Buying New Poly Bags the Management should take actions to remove poly bags that do not conform to the specifications.
- (d) The quotations were called twice for the sale of 25 teak trees in the Mahayaya Model Coconut Garden and despite there was an opportunity to select a suitable buyer at the instance of calling bids firstly, a recalling of quotations had occurred.
- However, the buyer selected after calling the second quotation had not appeared to buy the teak trees and the total expenditure incurred amounting Rs. 172,120 had become a futile expense. Even though two years had elapsed since the commencement of this work, The Board had lost Rs. 4,100,000 in revenue receivable due to failure t of selling these teak trees.
- Actions are being taken to obtain valuation reports for procurement activities to sell the teak trees again and it is kindly mentioned that the procurement activities will be carried out promptly after the related issue is completed.
- Actions should be taken to sell these teak trees soon after obtaining the approval of the Board of Directors carrying out the the procurement procedure properly .

- (e) Even though the Regional Office of Gampaha had targetted to distribute 54,000 packets of mite among planters in the year 2018, due to failure to import and distribute the required only 9,950 packets of mite were given to planters. It was 18.42 in per cent. Therefore, it had led to a reduction in coconut yield in the area.
- A new Predator Mite Plant was established at the Gampaha Regional Office in late 2018. The entire target of the year was not being able to adequately provide predator mites. As a result, it could not be adequately met the target of the year 2018. Predatory Mite Packets have achieved 90 per cent success with the target already set for the year 2019 .
- The Management should take action to set a systematic programme to distribute mite packets to planters to combat mite in the area.
- (f) Even though target subsidy for coconut and intercrops in Gampaha Regional Office for the year 2018 was Rs. 15,175,000 due to the payment of arrears of subsidies for the year 2017 out of those subsidies, only a sum of Rs. 7,244,978 has been provided to the coconut growers as subsidy for the year under review. Accordingly, an arrears subsidy of Rs. 7,930,022 had to be paid for the year 2018. Therefore, since the required subsidies were not received on due period for the cultivation of the crops caused the farmers to lose their interest in coconut cultivation.
- Since the provisions for the arrears of the year 2017 was not received separately, arrears of Subsidies for the year 2017 have been paid out of the provisions of 2018. Accordingly, there was a shortage of provisions for the payment of subsidies for the year 2018. Further, receiving of only a Rs. 694 million instead of the approved Rs. 810 million for the year under review has further affected to aggravate the situation.
- The Management should take immediate action to provide subsidy payments to planters for the cultivation on their lands.

### 3.2 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
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<p>The posts such as Deputy General Manager (Finance Management) and Deputy General Manager (Extension Development) of the Board had been in vacant for more than 02 years 09 months and 01 year 11 months</p>	<p>Even though there were vacancies in posts of Deputy General Manager (Finance Management) and Deputy General Manager (Extension Development) of the Board for more than 02 years 09</p>	<p>The Management should take necessary actions to recruit to the permanent officers expeditiously for the main posts of the Board .</p>
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respectively and due to the failure to appoint permanent officers to such posts the duties of the respective positions could not be fulfilled efficiently.

months and 01 year 11 months, the Assistant General Manager (Financial Management) and the Assistant General Manager (Model Coconut and Nursery Development) has performed duties well and truly in Acting Posts of the Deputy General Manager.