

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Coconut Development Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 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 Authority 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

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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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 Authority.

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 scepticism 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 Authority'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 Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority 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-compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance

Even though Actuarial Valuation Method should be done periodically to calculate the Employees Gratuity Benefit in accordance with Standard No.19, the Gratuity provision had been shown in the financial statements as Rs.38,393,469 without doing such actuarial valuation for Gratuity provision as at 31 December 2018.

Management Comment

No comments were made

Recommendation

Employees Gratuity should be calculated and shown in the financial statements based on the Actuarial Valuation Method according to the Standard.

1.5.2 Accounting Deficiencies

Audit Issue

164 items including machinery, computers and office furniture equipment valued at Rs.8,724,796 belong to coir mill at Dunkannawa estate which was taken over by the Authority

Management Comment

Steps will be taken to revalue the machinery, computers, office equipment and all items belong to coir mill and Dunkannawa estate which was taken over by the Authority again in the year 2016

Recommendation

Assets which were taken over to the Authority should be revalued and shown in the financial statements.

again in the year 2016 was removed from the accounts while leasing out to the Coconut Research Board and shows in the financial statements prepared for the year ended 31.12.2019.

1.5.3 Unreconciled Control Accounts or Records

Item	As per financial statements	As per corresponding records	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Debtors on services provide to owners of the Desiccated Coconut Mills	4,610,702	5,203,848	593,146	Only the amount receivable without tax from Desiccated Coconut Mill owners as at 31.12.2018 was accounted. Steps are taken to account the income with NBT/VAT after 01.06.2019 since steps have been taken by the Process Development Unit to issuing invoices to owners of the mills according to the event of service provided from 01.06.2019.	The reason for difference should be explained to audit by comparing balance of Ledger accounts with balance as per corresponding records
Balance receivable from a private company	182,011	33,150	148,861	This amount was received under the following receipts in the year 2019. Receipt No.120051, 120053, 121615, 121616, 121618, 119480.	That should be corrected as there is a difference in the balance confirmations submitted by the relevant company

1.5.4 Suspense Accounts

Item	Amount	Period in suspense	Management Comment	Recommendation
	Rs.			
The credit balance of Suspense Account shown under Cumulative Fund Account	1,871,776	02 years	The amount of Rs.1,871,776 shown in this query is not an unidentified balance. Three Desiccated Coconut Mills maintained by the Authority (No. 68,81 and 128) ie, balances of three deposit accounts. Steps couldn't be taken to settle these balances until the verdict is received in the cases pending relating to these three accounts.	Since it is not suitable to have a balance in Suspense Account in the financial statements, steps should be taken to identify and settle.

1.5.5 Documentary Evidences not made available for Audit

Item available	Amount	Evidence not provided	Management Comment	Recommendation
	Rs.			
(a) Debtors	3,953,855	Invoices/ Balance confirmation letters	According to the prevailing system, the invoice will be issued once the money is received. The invoices are scheduled to be issued at the same time the service is provided since 01 June 2019.	The right procedure should be followed and action should be taken to inform the relevant parties to confirm the relevant balances directly to the audit.
(b) Miscellaneous debtors	3,976,192	Balance confirmation letters	Letters had been sent to all debtors and creditors to confirm the debtor and creditor balances. The Finance Division has copies of correspondence. The settlement of these debtors and creditors balances can be confirmed by checking the receipts and payments of the year 2019.	Action should be taken to inform the relevant parties as confirming the relevant balances directly to the audit.

(c) Miscellaneous creditors	9,734,871	Balance confirmations	Letters had been sent to all debtors and creditors to confirm the debtor and creditor balances. The settlement of these debtors and creditors balances can be confirmed by checking the receipts and payments of the year 2019.	-do-
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1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit issue	Management Comments	Recommendation
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A sum of Rs.31,550,000 receivable from a private company had not been recovered from 14 years.	It can't be agreed as it was mentioned that the action had not been taken to recover a sum of Rs.31,550,000 from the BBC Lanka company which is a private company. Several letters had been exchanged on several occasions and several rounds of discussions had been held mediated by the Ministry. BBC Lanka company had also requested money from the General Treasury to pay this money.	The Ministry, the Treasury, and the company should take steps to settle this money by discussion.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a) Coconut Development Authority internal Circular No.එපා.සං.අ./පරි/කා 2/2013/01 dated 15 February 2018. (i) Paragraph No.02		Even though if a person who has applied for another advance should have paid the previous advance amount, a	Even though if a person who has applied for another advance should have settled the previous advance payments maximum
		According to the circular, advance payments should be made after the first advance payment has been settled.	

sum of Rs.1,053,550 of advance payment is limited had been paid as as per the attached schedule. advances without However, when the amount of recovering the advances exceeding the previous advances minimum limit is required, amounting to the advance is released with Rs.846,200 for 06 the special approval of the persons in 09 Chairman or the Director. instances.

(ii) Paragraph No. 05 Even though if the At present, it is charged not 2 Action should be advance cannot be per cent per day but 2 per cent taken as per the settled within three per annum. However, at the provisions of the working days after Audit Committee meeting the Circular regarding the expiration of the held in March 2019, it was advances that cannot be settled within a due work without advised to advances are given reasonable period of reasonable reason, a on approval of the Heads of time under the fine of 2 per cent the Divisions and the whole supervision of the shall be imposed on responsibility regarding Divisional Heads. the total amount settlement are done on the the received, a fine had supervision of the Heads of not been charged as the Divisions instead of above for a sum of recovering like this. Rs.1,527,950 had been delayed for a period of 02 days to 72 days in 24 instances.

(b) Public Finance Even though an Advances had been made for It should be advised Circular No. officer who obtains training / awareness programs to settle the advances 03/2015 dated 14 the Sub-Imprest conducted in the field outside promptly by taking July 2015. should be settled by the office. Procurement of necessary actions to find out the reasons for the delay in settlement of advance payment. himself immediately materials and meeting after completion the materials etc. were made for these programs from outside parties and it was taken much time for officers who work in the field to complete the program and hand over the relevant bills to the Fort Office and match the additional fuel bills obtained to relevant duties. Other than that, in other instances, the balance money had been banked immediately to avoid settle.

the delay in handover to the Narahenpita headquarters from Fort office.

The relevant awareness programs were carried out to plan the transportation needs properly, estimate the expected cost of the additional fuel and obtain it as advance, to obtain bills relating to the purchase of raw materials and meeting materials only from the institutions which can submit them promptly, settlement of bills the day after the completion of the program in order to prevent these delays in future.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.74,288,048 and the corresponding surplus in the preceding year amounted to Rs.140,413,563. Therefore deterioration amounting to Rs.66,125,515 of the financial result was observed. The reason for the deterioration is mainly affected by the decrease of other income by Rs.126,108,627.

2.2 Trend Analysis of major Income and Expenditure items

The revenue and expenditure items for the year under review were compared with the previous year, there was a decrease in other revenues and an increase in supply requirements and repair costs.

2.3 Ratio Analysis

The current ratio increased from 1: 8 to 1:10 from the previous year to the year under review and gross profit and net profit ratio declined from 33 to 21 per cent and 31 to 19 per cent respectively.

3. Operational Review

3.1 Management Inefficiencies

The following observations were made.

Audit Issue	Management Comment	Recommendation
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(a) While a sum of Rs.7,060,032 receivable from Sri Lanka Rupavahini Corporation since around 04 years was agreed to set-off for the upcoming programmes as per letter dated 06 September 2016 of the Rupavahini Corporation, the opportunity to settle the above was lost due to payment of the entire amount to the Rupawahini Corporation without set-off from that amount of Rs.1,524,900 balance payable on television programmes advertised from 10 April to 15 April 2018 on behalf of the Sinhala New Year Festival.	A sum of Rs.7,060,032 had previously been paid to National Television and investigation on allegations of bribery or corruption is being conducted about it. Therefore, it was asked from the television channel on the dates of 20.10.2017, 06.10.2016 and 11.06.2018 to advertise and set-off them to the relevant amount instead of their due amount. However, no definite answer has been given.	Action should be taken to recover the amount recoverable from a long period or conduct another programmes instead of it.
(b) Although it is registered with the Authority for the production of coconut based products, a sum of Rs.1,600,000 had been allocated through Action Plan for distribute 400 containers to 20 industrialists in two Districts each to direct those institutions for they were not obtained quality standards certificates.	This is because, although the activities of the Action Plan are presented as a paper under 563 / PD / 04 for the approval of the Board of Directors, this activity has not authorized its decision No.563.08. Although it was forwarded to the Administrative Division for procurement activities of the containers by assuming that Board Approval could be obtained, the opportunity had not been received to implement due to the lack of Board Approval.	Action should be taken to implement as per the Action Plan.
(c) The stocks of Rs.3,461,702 out of	Requirements for the next	Action should be

laboratory goods valued at Rs.5,804,321 purchased in 2014 and 2017 without identifying the requirements were being existed in idle.

year will be applied with due care to the stocks available in the store. It is customary to have enough stock in the warehouse for a period of about 6-8 months in the next year to continue the tests even when there is a delay in importation.

taken to purchase by identifying the requirement correctly.

Most of these items were delivered in late 2017 and early 2018. The use of items in the store were reduced due to fewer samples were received for the tests in the year 2017/2018.

- (d) Stickers valued at Rs.4,076,000 out of Rs.7,184,234 purchased without identifying the necessity to paste in coconut-based products from 2014 to 2018 remained idle for more than 02 years.
- Our expected goals couldn't be achieved due to the collapse of the coconut production industry in 2017 and 2018. However, with the launch of coconut-based products by the manufacturers in 2019 in usual as early, the use of sticker labels will be expected to increase. At the same time, the use of these labels would be further increased because of a special project has been launched to improve the coconut oil industry.
- When purchasing, identify the necessity and pay close attention about the purchase.
- (e) Although the Authority had paid Rs.1,018,100 from 2013 to 2016 to private company to complete the activities relating to bid through the internet for auction of coconut, the above expenditure had become an idle expenditure due to the unavailability of online auctions
- The online auction of coconut is compliance with the rapidly expanding digital infrastructure process and there is a backward trend in online coconut auctions was arisen because of the low literacy rate of internet / computer usage (especially in coconut buyers) in the field of coconut trading.
- By resolving the problems with using the Internet and speedy action should be taken to implement this.

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| (f) | A contract of Rs.17,105,433 relating to modernization of the laboratory of the Authority had to be completed by 25 December 2017 and although a sum of Rs.1,400,000 had paid to the consultancy company who supervises its activities, the relevant renovations had not been completed even as at 31 December 2018. Because of that, the Authority had lost revenue of Rs.9,297,800 due to it was impossible to carry out laboratory tests. | Laboratory modernization work had already been completed and laboratory services are being expanded and tests for all other coconut-based products carried out on a daily basis are being carried out. | Steps should be taken to expedite tests by further expanding the Laboratory services |
| (g) | Two vehicles assigned to two officers under the Operating Lease method had not been used for running as the officers retired and resigned. A sum of Rs.752,100 paid as rent for the period from 08 September to the month of December 2018 was an uneconomic expenditure. | The payments had been incurred without use from the month of September to December with the retirement of the officer attached to this vehicle. Currently this vehicle is attached to the Acting Director (Process Development). | Action should be taken to effective use of vehicles which are being paid monthly lease rentals. |
| (h) | Although a sum of Rs.2,480,000 had been allocated through the Action Plan to educate the general public and consumers through the electronic and printed media for purchasing certified coconut oil of the Authority, these awareness programs were not held until the end of the year. | The quotations had been given as Rs.2,485,450 for advertising by state television media. However, due to the political instability of the country at this time, there was no opportunity to hand over to the institution to prepare an advertisement or to publish it through the media due to problems in making these payments because there was no Board of Directors. It will be supposed to obtain support from the Disease Prevention and Promotion Division of the Ministry of Health by conducting relevant discussions to advertise through electronic media campaigns by June 2019. | Action should be taken as planned to educate the public and consumers about coconut-based products. |

3.2 Matters in Consentaneous Nature

Audit Issue	Management of Comment	Recommendation
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An amount of 1,271,834 out of 3,529,793 stickers valued at Rs.6,084,957 issued from the store had been sold to the mill owners and 1,069,391 stickers only had been stored in the Processing Division. Accordingly, action had not been taken about a deficit of 1,188,568 stickers valued at Rs.1,402,507 issued from the store.	No comments were made	Conduct an investigation on the deficit of stickers and should be reported to the audit.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
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There were 26 vacancies in the staff of the Authority by the end of the year under review and although the post such as Director (Process Development), Director Marketing (International), Legal Officer, Research Officer, Process Development Officer, and Economic Research Officer had vacant for a period of one to two years, action had not been taken to appoint qualified officers to the relevant posts.	No comments were made	Action should be taken to recruit the officers who are essential to achieve the objectives and functions of the Authority.