

Provident Fund of Coconut Cultivation Board - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Provident Fund of Coconut Cultivation Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 the Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters discussed in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed 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 disclaimer 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 Fund'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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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

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 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 Fund'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 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund 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 the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As it was discovered in 2021, the defrauded amount made by the accountant of the Coconut Cultivation Board, who was the secretary of the fund since the year 2012 by giving money through cheques as loans, contribution advances and retirement benefits to 13 persons including family members who are not members of the fund had been Rs.77,727,691 as of 31 December 2021. The defrauded amount of Rs.26,800,330 related to the years 2019 and 2020 had been deducted from the membership fund in the statement of financial position instead of being adjusted to the income and expenditure account. Any adjustment had not been made in the financial statements for the amount of Rs. 46,134,961 defrauded for the period 2012-2018.	Although this amount has been identified as a defrauded amount through the report of the committee of senior officers of the Ministry, since the legal proceedings have not yet been completed, this amount has not been confirmed by the governing board as a perpetual loss and adjusted to the accounts.	The provident funds of the Board's employees should be correctly and properly administered and recovery of defrauded money should be done immediately.
(b) Although the member loan balance of the fund at the end of the year under review was Rs.192,009,539 according to the statement of financial position, since that balance was Rs.173,189,645 according to the debtor register and age analysis presented with the financial statements, a difference of Rs.18,819,894 between the balance according to the financial statements and the balance according to the register was observed and, it was observed that the collection of these loan balances is problematic.	A register (a debtor register) had not been submitted for the debtor balance included in the statement of financial position prepared on 31.12.2018. The closing balance included in the above final accounts of 2018 used as the opening debtor balance in preparing the final accounts from the year 2019 onwards. The final balance has been calculated, considering the difference between the actual debtor balance that can be recovered according to the payroll from the year 2019 and the existing balance according to the ledger as bad debt and distributed among the members as a loss by the committee to transfer the fund to the Central Bank.	Proper action should be taken to maintain accurate and up-to-date member's loan register, settle the existing differences and collect all loans timely.

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| (c) | Since an amount of Rs.59,029,104 had been defrauded by the loan, advance and grant payment accounts of the fund from the year 2012 to the year 2019 and due to insufficient books and documents being maintained for the fund, it could not be satisfy regarding the accuracy of the opening balances of the member fund and member loan account in the financial statements of the year 2020 during the audit. | Before the fraud was discovered, there was no disclosure or revelation regarding the fraud in the set of financial statements prepared for the year ending on 31.12.2018. Due to this, the basis for the opening balances obtained on 01.01.2019 was the financial statements of the previous year. After the fraud was discovered, the financial statements prepared from 2019 onwards have presented the amount of fraud identified for the respective years in notes. We have accepted that the opening balances are faulty due to inclusion of fraudulent transaction values in the financial statements prior to 2019 as indicated by the audit. | Adequate accurate books and records for the fund should be maintained up to date and actions should be taken for immediate recovery of defrauded funds. |
| (d) | Income tax had not been calculated and accounted for the year under review. | The cheque issued in the year 2019 for income tax payable on the final accounts of the year 2018 was cleared only in the year 2020. It has been done under the registration number 102331222 of the Inland Revenue Department. After that, the Inland Revenue Department has made inquiries under the above number from us regarding the non-payment of tax under the above number since the year 2019. | Income taxes should be calculated and accounted correctly. |
| (e) | Due to the fact that the dividends of Rs.52,890 to be paid for two employees for the year 2018 were credited to the Employee Provident Fund account without being recognized as dividends, the Employee Provident Fund had been over-valued and the dividend payable had been under-valued. | After the fraud was discovered in March 2021, the final accounts for the years 2019 and 2020 were prepared in the year 2022. It was not possible to prepare the accounts on the accrual basis due to deficiencies in the source documents (misplaced) and then switched | The payment of dividends to the respective members by the fund and the accounting of dividends payable should be done in a formal and accurate manner. |

to the cash basis and prepared the final accounts from 2019 onwards. Due to this, the final accounts have been prepared doing account without recording in the dividend payable account.

1.5.2 Documentary Evidences not made available for Audit

	Item	Amount (Rs.)	Evidence not available	Comments of the Management	Recommendation
(a)	Output payments	343,399	Payment vouchers and supporting documents	Although the output payments have been made and released to 64 employees in the year 2020, the related source documents were not properly filed for the purpose of fraud, and the employee's information related to these Rs.343,399 of output payments were also misplaced. Nevertheless, after checking the payroll and membership documents, the employee numbers and other details of the employees who have paid these funds have been identified.	Vouchers and supporting documents related to all payments of the fund should be submitted for audit.
(b)	Loan payments	4,093,386	Payment vouchers and supporting documents	The cash book of the year 2020 was deliberately misplaced by the group who made the fraud. Due to this, before preparing the final accounts for the year 2020, a new cash book had to be prepared based on bank statements. Although the vouchers were not submitted to the audit there, the employees who received these loans have been correctly identified. Accordingly, it has been included in the payroll for deduction from their salary.	Vouchers and supporting documents related to loans given by the fund should be submitted for audit.

(c)	Loan payments	24,279,109	Supporting documents	The cash book of the year 2020 was deliberately misplaced by the group who made the fraud. Due to this, before preparing the final accounts for the year 2020, a new cash book had to be prepared based on bank statements. Although the vouchers were not submitted to the audit there, the employees who received these loans have been correctly identified. Accordingly, it has been included in the payroll for deduction from their salary.	The supporting documents related to the loans given by the fund should be submitted for audit.
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1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-Compliance	Comments of the Management	Recommendation
(a) Section 27 (3) of the Employees Provident Fund Act No.15 of 1958 and Section 6 (II) of the Coconut Cultivation Board Provident Fund Act approved by the Department of Labor on 02 May 1973	The constitutions or orders governing an approved provident fund should not be changed except with the written consent of the Commissioner and, even though it should be acted on all matters relating to the management of the fund, and in respect of any matter or thing for which no order has been made after obtaining cover approval from the Commissioner of Labor and Commissioner of Inland Revenue to the decision of the majority of the governing committee, without obtaining the cover approval of the Labor Commissioner and the Inland Revenue Commissioner for the decision taken in the	Since the establishment of the Employees' Provident Fund of the This kind of problematic situations were not revealed from the implemented year of the Employee Provident Fund of the Coconut Cultivation Board until the fraud was discovered in March 2021. All these incidents of defects are discovered after a formal investigation and audit process takes place after the fraud is detected. The members of the governing body who managed this fund until now are not working in the institution by now, and other members are accused of this fraud. All decisions taken by the current	All payments should be made in accordance with the constitution of the fund.

governing committee held on 19 June 2008 to pay advance on two occasions as, once after the members attain the age of 55 and once again after 2 ½ years to that i.e. when he completed the age of 57 ½ years and executed without amending the constitution, Rs.10,790,000 of advances had been paid to 12 officers in the year under review accordingly.

Governing Body are subject to the direct supervision of the Labor Commissioner and will be implemented only after approval.

(b) Constitution of the Provident Fund of the Coconut Cultivation Board approved by the Department of Labor on 02 May 1973

(i) Section 5

Fund related matters should be managed by a Steering Committee consisting of three members and the quorum for a Steering Committee meeting shall be two. However, it was observed that this Steering Committee did not meet from 2015 to 2020. Accordingly, the approval of the Steering Committee had not been given for the pension grants, loans and advances paid in those years.

Conducting Committee meetings, writing reports for that and releasing outputs and advances have been done properly under the approval of the Committee by the Governing Body appointed after the fraud was discovered in 2021.

Conduct of meetings, payment of pension grants, loans and advances should be in accordance with the constitution of the fund and meeting records should be maintained properly.

(ii) Section 28

Although the accounts of the fund to be prepared for each calendar year should be audited once every twelve months by an auditor approved by the Labor Commissioner, approval had not been obtained from the Labor Commissioner to appoint institute to audit the accounts of the fund until the year 2020.

In the pre-fraud period, although the governing body has procured the works of appointment an auditor for the final accounts audit, after the fraud, the final account audit will be conducted only by the Government Audit Office, upon the notification of the Labor Commissioner.

The accounts of the fund should be audited by an auditor approved by the Labor Commissioner in accordance with the sections of the referred Constitution.

(iii) Section 29	Although the committee should convene a members meeting once in every calendar year, members meetings for the years 2019, 2020 and 2021 had not been held by the fund.	After the fraud was discovered, the new Steering Committee has arranged to hold annual general meetings continuously from 2022 until now.	Actions should be taken to hold member meetings in accordance with the constitution of the fund.
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2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.46,180,938 and the corresponding surplus of the previous year was Rs.56,292,647. Accordingly, a deterioration of Rs.10,111,709 was observed in the financial result. Decreases in fixed deposit interest during the year under review by Rs.9,526,162 had been mainly caused for this decline.

2.2 Trend analysis of major Revenue and Expenditure Items

The items of income and expenditure for the year under review are as follows, compared with the previous year.

Item	Year 2020 Rs.	Year 2019 Rs.	Variance Rs.	Variance as a Percentage
Income				
Fixed deposit interest income	42,627,814	52,153,976	9,526,162	18
Membership loan interest	5,700,588	6,202,810	502,222	8
Expenses				
Management fees for investment portfolios	1,991,429	1,906,422	85,007	4

2.3 (a) The financial statements of the fund up to the year 2018 were audited by private audit firms and an unqualified audit opinion had been issued on the financial statements of the year 2018. According to the explanation given by the Attorney General on 26 March 2022 that there is no obstacle for the audit of the financial statements of the fund, the Auditor General will conduct the audit of the fund from the year 2019.

(b) Member Fund Analysis

There are 706 members of the fund by the end of the year 2020 and the member fund value was Rs.695million. Although the membership contribution in the year under review was Rs.87million, Rs.89 million had been paid as advances and grants during the year. Also, loans of Rs.28 million had been given to members in the year under review and loans of Rs.23 million had been recovered.

3. Operational Review

3.1 Transactions of Contentious Nature

Audit Observation

Even though civil cases should have been filed against the relevant persons with the assistance of the Attorney General's Department to cover the loss caused to the fund due to the fraud, It was observed that such cases had not been filed until 31 December 2023. Also, legal action had not been taken regarding 7 chairmen of the fund who were the second signatories on the cheques from 2012 to 2021 which was the period of fraud took place, and 7 general managers who were appointed on a acting and secondary basis until 31 July 2024, and the total fraud amount of Rs.15,898,523 had been recovered only by 31 December 2023.

Comments of the Management

All cases filed through the Attorney General's Department have been withdrawn on the basis of re-filing, not by the Coconut Cultivation Board but by the Attorney General's Department as an action taken regarding the recovery related to the financial fraud caused by the cheques of the Employees' Provident Fund of Coconut Cultivation Board. The Attorney General's Department have been notified in writing to take legal action regarding the second signatories of the fund.

Recommendation

Legal action should be taken against the officers responsible for the fraud immediately and recovery of the defrauded money should also be done without delay.