

## **Coconut Research Board - 2020**

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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 Research Board for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the statement of financial performance, 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 2020 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 on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, 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 Audit Scope (Auditor's Responsibility on the Audit of 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated 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 Audit Observations on Preparation of Financial Statement**

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

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<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) The cumulative interest receivable pertaining to the year under review amounting to Rs. 21,092,340 for the fixed deposit of Rs. 42,600,000 invested on 16 May 2017 on the basis of automatic renewal for a period of 05 years should have been stated as non-current asset in accordance with Paragraph 76 of Sri Lanka Public Sector Accounting Standards No. 01 , it had been stated under current assets.</p>	<p>It is informed that it would be submitted accurately through the accounts for the year 2021 .</p>	<p>The fixed deposit interest payable should be accurately stated in the financial statements in accordance with the instructions in the Standard.</p>

- (b) The petty cash of 3 Centres amounting to Rs.153,780 which should be stated under cash and cash equivalents in cash flow statement as per the Paragraph 08 of Sri Lanka Public Sector Accounting Standards No. 02 had been stated under operational activities and in the statement of financial position, under other current assets.
- It is informed you that it would be submitted accurately through the accounts for the year 2021 .
- The petty cash should be shown in the financial statements as per the instructions of the Standard.
- (c) Although the depreciation should be made by calculating useful life of assets based on their nature and functionality , in accordance with the Sri Lanka Public Sector Accounting Standards No. 07 , vehicles and furniture with different useful life valued at Rs.3,651,845 and Rs.749,000 respectively had been categorised under one class of assets and depreciated.
- As a result of making of payments for goods and services based on the provisions made for each expenditure item included in that year's Budget Estimate, certain assets have been classified under another class of assets outside the relevant category. It is informed that actions will be taken not to occur this error from in future and to adjust the assets accurately which have already been entered.
- Depreciations should be made by calculating the useful life of the assets based on their nature and functionality in terms of Standard No.07 .
- (d) As a result of having accounted for the total contract value of Rs. 4,678,772 awarded, instead of Rs. 351,832 paid in cash for work-in-progress on two buildings under construction in accordance with Paragraph 29 of Sri Lanka Public Sector Accounting Standards No. 15 , the balances in work-in-progress account and expenditure account
- It is informed that the actions will be taken to remove the total contract values which have been paid more than the amount paid in cash and included in the work-in--progress account to be adjusted accurately through the accounts for the year
- According to the Standard, the cost for the period from the date of commencement of the contract to the completion of the contract should be stated in the accounts.

each had been overstated by 2021 .  
4,326,940 during the year .

### 1.5.2 Accounting Deficiencies

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>(a) A sum of Rs. 2,579,026 receivable for the vehicles and equipment cost at Rs. 10,007,409 disposed during the year under review and the disposal profit Rs.2,305,859 had not been adjusted in the financial statements.</p>	<p>Due to the occasional receipt of money from January to March 2021 for the disposal of goods which had been carried out at the end of the year , thus the amount due could not be ascertained, the money could not be accounted for as receivables . It is informed that it will be corrected through the accounts in the year 2021.</p>	<p>The receivables from disposal of assets should be disclosed in the financial statements.</p>
<p>(b) As a result of net debit balance of Rs. 3,913,777 which had arisen at the time of removing of the buildings of the Dunkannawatta Research Centre belonging to the Coconut Development Board that had been capitalized and used by the Board and returned in the previous year from the books, had been adjusted to the surplus of the year under review instead of adjusting to the accumulated surplus, the surplus had been understated by the same amount in the financial statements.</p>	<p>It is assured that such errors would not be occurred in future.</p>	<p>Transactions pertaining to the previous year should be adjusted to the cumulative surplus.</p>

- (c) Although the payments should be made in accordance with the agreement for the Weligama land obtained on lease by the Coconut Cultivation Board in 2016 for a period of 10 years to establish a nursery for obtaining hybrid seed coconuts to control the coconut leaf wilt disease in Weligama, unpaid down payment of Rs. 1,000,000 and the annual fees of Rs. 25,000 each had not been accounted for. As a result, current liabilities had been understated by Rs. 1,075,000 in the financial statements at the end of the year under review.
- As the project related to Weligama coconut leaf wilt disease was carried out jointly by the Coconut Cultivation Board and the Ministry of Plantation Industries and also the actions have been taken to remove the phrase of “Payments to the Coconut Cultivation Board” and to amend the Memorandum of Understanding, there were no related expenses or provisions made in the accounts for the year 2020 .
- Since the agreement has not been amended in the year 2020 the liabilities should be disclosed in accordance with the agreement in valid.
- (d) Even though a sum of Rs.173,256,556 received as Government Capital Grant for 31 projects were credited to the Capital Grant Account and the expenditure of 27 projects which had been completed using that money was recorded as Rs. 111,427,751 as the expenditure of the Board without formulating an accurate accounting policy on how the funds received from the Line Ministry for various projects are accounted for , the amount of capital grant related to this expenditure had not been recognized as income in the statement of financial performance . Therefore, the government's capital contribution and cumulative surplus had been overstated and understated by Rs.111,427,751 respectively in the financial statements.
- Arrangements will be made to adjust the expenditure not deducted from the capital provisions pertaining to the completed projects.
- Adjustment for the accounts should be made after formulating an accurate accounting policy on how the funds received from the Line Ministry for various projects are accounted for.

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| <p>(e) The information such as a shortage of 289 books, unaccounted 190 books and 31 unverifiable books due to various issues had been recorded in the Library Books Stock Verification Report dated 31 December 2020 . As a result, the accuracy of the book value of Rs. 3,159,059 stated in the financial statements could not be ascertained during the audit.</p> | <p>A Committee has been appointed for the physical verification of library books and the work is at its final stages by now.</p> | <p>Arrangements should be made to improve the internal control system related to library books and to adjust the accounts according to physical verification</p> |
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## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>(a) The amount of Rs. 777,856 given in the year 2019 to two officers who had gone abroad and arrived had been stated under the other current assets of the financial statements without taking actions to recover even by the end of the year under review.</p>	<p>Since the approval of the Department of National Budget is often obtained after the completion of that visit, though this money was issued as an advance with the approval of the Line Ministry, the approval has not yet been received.</p>	<p>Advances should be settled without delay.</p>
<p>(b) Legal actions had not been taken to recover a sum of Rs. 28,588,859 as per the agreements that had to be received from 09 officers who had gone abroad on scholarships during the period 1992-2014 and not reported back to work, from officers and guarantors.</p>	<p>The cases filed against 07 persons who had violated the agreement are being heard and although the Attorney General's Department has been instructed to initiate proceedings against the two, the activities has not been commenced due to the Covid epidemic.</p>	<p>The Board should recover money from those who violated the agreement.</p>

**1.6.2 Payables**

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Actions had not been taken to settle a sum of Rs. 11,513,887 payable for 25 third parties older than 1 year.	It is informed that the actions will be taken in the future.	Actions should be taken to settle the payables to third parties.

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

----- <b>Reference to Non-compliance with Laws, Rules, Regulations etc.</b> -----	<b>Non-compliance</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>			
(i) F.R. 571	Even though 13 years had elapsed by the year under review for the CESS Project implemented by the CESS Fund which had received from the General Treasury, the retained money of Rs. 424,352 was being brought forward without any settlement or taking into revenue.	It is difficult to find the current addresses of those institutions to release the relevant retained money. It is informed that the actions will be taken to be repaid or to take to income in 2021 ensuring that there are no shortcomings in those contract works .	It should act in accordance with Financial Regulations and settled.
(i) F.R. 371	Although the advance should be settled as soon as the task is completed, actions had not been taken to settle the advances totalled to Rs. 939,558 given to 3 parties in	Advances given for 5 research projects will be settled according to the stages of completion of the work. Due to non-receipt of approval by	Arrangements should be made to settle the advances upon the completion of the task.



2018 and 2019 to various research projects and to purchase goods and services . the Treasury for advances paid for the purchase of air tickets for a foreign tour of two officers it has been unable to settle. The other advance given for the construction of a tube well has been sent to the Board of Directors to write off as an expenditure or for further action because that task has failed.

**2. Financial Review**  
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**2.1 Financial Result**  
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The operating result for the year under review was a surplus of Rs. 19,639,622 and the corresponding surplus of the preceding year was Rs. 39,691,558. Accordingly, a deterioration of Rs. 20,051,936 was observed in financial results. Although the income of the year under review had increased by Rs. 5,708,600 , the increase of expenditure by Rs. 25,760,534 had mainly attributed to this deterioration.

**3. Operating Review**  
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**3.1 Management Inefficiencies**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Although a 160 acre seed coconut orchard was established in 2013 at Keeniyama Estate, Chilaw belonging to the Chilaw Plantation Company on government expenditure amounting to Rs.25,814,945 and the expenditures of that	There were spaces for 3580 coconut seedlings in the area of about 141 acres where coconut seedlings were planted due to the availability of 2 small tanks and a part of a jungle in this land and deficiencies in maintenance was the main cause of dying of 4483 plants. It has been planned to fill the spaces during this year by producing San Raman Seeds.	Arrangements should be made to achieve the desired objectives by establishing a seed garden.

company amounting to Rs. 40,375,217, aiming to provide 250,000 “Kapruwana” hybrid coconut seedlings per year for the national coconut plantation, it was not observed whether the desired objectives are achieved in the establishment of this garden due to the matters such as failure to carry out a feasibility study and prepare a long term plan, 4,818 shortages for coconut seedlings, hand pollination and poor maintenance of cultivation.

- (b) Even though a piped water system had been installed at a cost of Rs. 17,501,925, to irrigate all the plants in the 160 acre land area of the Kiniyama Seed Coconut Garden, as there was no water collection tank, it supplies water only to the area around the tube well and thus it was observed that the bowser was supplying water to the rest of the area, the role of the Technical Evaluation Committee and the Procurement Committee on that procurement was controversial.

Arrangements have been made to mitigate that damage using the red weevil repellent produced by the Coconut Research Institute for the red weevil damage that severely affects the green dwarf plant in the year 2020 in this coconut seed garden. Because of the Chilaw Plantation Company is currently maintaining the Coconut Seed Garden in a proper manner, it will be able to gain a very good progress from this Coconut Seed Garden in future.

It had not been originally designed the water collection tanks to be used. As it has been noted in the report issued by the Water Board that an underground well can produce 200 liters of water per minute, although the water of the well has been designed to be fixed directly into the pipe system,

Proper remedies should be applied for excluding from the desired objectives of the pipe line system and actions should be taken with a proper planning so that the desired objectives of the projects can be achieved.

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| <p>(c) It was not observed that the control of coconut leaf wilt disease spreads in the Southern Province is effective and efficient as per the matters such as maintaining of 05 acre coconut garden established in Weligama area, Matara in 2016 incurring an expenditure of Rs. 11,729,698 for the production of hybrid seeds which are resistant to coconut leaf wilt without proper supervision, not conducting hand pollination of 50 leased coconut palms and stopping of research activities, failure to inspect 249 out of 294 Grama Niladhari Divisions in the fourth stage of the protection zone where diseased trees are removed and maintained.</p> | <p>As the contract period of the worker who carried out the hand pollination had expired on 31.10.2020 has not been extended by the Department of Management Services, the pollination programme had stopped. Forty five Grama Niladhari Divisions have been inspected under the fourth phase of the protection zone in the year 2020 .<br/>(Answers have not been given for the suspended research activities)</p> | <p>Actions should be taken to identify inefficiencies in controlling Weligama coconut leaf wilt disease and to manage it efficiently.</p> |
| <p>(d) Nine cases had been filed regarding service issues and fundamental rights violations by third parties against the Board.</p>   | <p>One case is now over and other cases are being proceed in court.</p>   | <p>All the activities of the Board should be carried out in accordance with the laws, rules, regulations.</p>                             |
| <p>(e) Arrangements had not been made to take appropriate action regarding the laboratory materials valued at Rs. 229,546 obtained for the Palm Oil Project which</p>   | <p>It has been decided to provide these chemicals for researches in other sections.</p>   | <p>Steps should be taken to utilize or dispose of the remaining stocks.</p>   |

had suspended in 2016 by a decision of the Board of Directors even by the end of the year under review.

### 3.2 Operational Inefficiencies

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>(a) The coconut yield of 3,941,973 nuts in the year under review at 10 Gene Resource Centres (Estates) owned by the Board had decreased by 27 per cent as compared to the yield of 5,410,551 nuts in 2019 and 22 per cent as compared to the estimated coconut yield of 5,079,249 nuts. The decline had ranged from 2 per cent to 40 per cent among Genetic Resource Centres.</p>	<p>When considering the variation in coconut yield in the estates of the Coconut Research Institute for 10 years from 2010 to 2020, its average value is around 4.5 Million coconuts. Due to the facts that the decrease of rainfall, lack of widespread rainfall and decrease in the number of annual wet days, overall coconut yield in 2020 has decreased as compared to estimated coconut yield.</p>	<p>Necessary actions should be taken studying all the factors that affect to the decrease in coconut yield.</p>
<p>(b) Due to failure to taking actions to obtain the coconut crop in time at the Genetic Resource Centres owned by the Board, the number of fallen coconuts was at a considerable level and the number of nuts were 564,659, 1,043,374 and 885,811 respectively in the years 2018, 2019 and 2020 and it was 20.2, 19.2 and 22 per cent respectively as a percentage of the total coconut yield.</p>	<p>The average number of a fallen coconut is about 20 per cent of the total coconut yield in the management of large scale coconut plantations maintained on a commercial level. As the coconut harvesting is done at intervals of 1 month - 02 months with 08 shifts per year, there is a slight increase in the number of the fallen coconut.</p>	<p>Steps should be taken to obtain the coconut crop in a timely manner covering the entire number of trees.</p>

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| <p>(c) Although the number of trees that should be fertilized per 10 feet circle in 10 Research Centres/ Genetic Resource Centres were 72,844 , the number of trees that were fertilized was about 56,918 . It was observed that the improper application of fertilizers had affected the reduce of the yield of coconut.</p> | <p>Due to the prevailing situation in the country because of the Covid-19 epidemic, although there was a slight delay in receiving the purchased fertilizer stocks to each Estate, applying of fertilizer in the first quarter of 2021 has been completed.</p> | <p>In order to obtain a successful coconut yield, the activities should be properly managed.</p>                                    |
| <p>(d) Providing hybrid seed coconuts to the Coconut Cultivation Board by the Coconut Research Board were 73,082, 46,367, 37,234 and 44,730 nuts from 2014 to 2017 respectively. Nevertheless, it had decreased as 26,763, 36,631 and 39,375 nuts among the period of 2018, 2019 and 2020 .</p>                               | <p>Variations occur in the annual coconut yield each year also affect the increase or decrease of the number of hybrid coconut seeds.</p>  | <p>A well-planned arrangement should be made in respect of the supply of hybrid seed coconuts to the Coconut Cultivation Board.</p> |

### 3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>Out of the 391 permanent approved staff of the Coconut Research Board, there were 125 vacancies or 32 per cent were in vacant. Meanwhile, 42 out of 69 approved posts in the Senior and Middle Academic and Research Staff were vacant.</p>	<p>Arrangements have made to fill 42 vacancies in the approved Senior and Middle Academic and Research Staff. Although it has been submitted to revise the recruitment qualifications to the Management Services Department because of lack of the officers who had fulfilled the basic qualifications for the posts only with internal enrolments, recruitments could not be made due to the unavailability of the approval so far.</p>	<p>Arrangements should be made to fill the vacancies or to revise the approved number of employees.</p>

#### 4. **Accountability and Good Governance**

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##### 4.1 **Submission of Financial Statements**

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###### **Audit Observation**

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Although the Draft Annual Report with the financial statements should be submitted to the Auditor General within 60 days from the end of the financial year, the Draft Annual Report for the year under review had not been submitted with the financial statements.

###### **Comments of the Management**

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Comments have not been given.

###### **Recommendation**

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The Draft Annual Report along with the financial statements should be submitted to the Auditor General.

##### .2 **Tabling of Annual Reports in Parliament**

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###### **Audit Observation**

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Arrangements had not been made to table the annual report of the year 2019 in Parliament and to be published.

###### **Comments of the Management**

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As soon as the completion of printing of the Annual Report for the year 2019 which has been delayed due to the COVID epidemic will be submitted to the Cabinet for approval.

###### **Recommendation**

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Actions should be taken to table the Annual Reports in Parliament within the stipulated time and publish them.