

Coconut Cultivation Board - 2020

1. Financial Statement

1.1 Disclaimer of Opinion

The audit of the financial statements of the 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 comprehensive income, 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. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Board. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my 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

I do not express an opinion based on the matters described in Paragraph 1.5 of this report.

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 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 intends 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 of the Board.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My responsibility is to conduct an audit of the Board's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) Although the entities should present financial statements that indicate budgeted figures and actual figures separately in terms of Paragraph 24 (a) of Sri Lanka Public Sector Accounting Standard 01, the budgeted figures had not been included as such in the financial statements submitted for the year under review .	It is informed that the actions will be taken to present the financial statements for the year ended 31.12.2021 so that the budgeted figures and actual figures can be indicated separately.	Financial statements should be presented with budgeted figures and actual figures.
(b) Although assets and liabilities should not be set off against each other except as required or permitted by Paragraph 48 of Sri Lanka Public Sector Accounting Standard 01, the credit balance of the current account of the coconut model garden ledger amounting to Rs.29,990,706 and the debit balance of the current account of nursery ledger current account amounting to Rs. 4,675,275 were set off to each other and the net value of Rs. 25,315,430 had been erroneously shown under current assets in the statement of financial position.	Since the statement of financial position should be presented more clearly and concisely, the credit balance of Rs.29,990,706 in the current account of the coconut model garden ledger and the debit balance of Rs.4,675,275 in the current account of the nursery ledger have been recorded in the statement of financial position.	Without setting off assets and liabilities, the current asset balances and current liability balances should be shown separately in the statement of financial position.
(c) Although the value of Rs. 22,197,339 invested in the Pasikuda Tourism Project which was	Actions will be taken to review the current status of the Pasikuda Tourism Project	The fair value of the investment

commenced as a long-term investment in the year 2013 should be classified as non-current assets in accordance with Paragraph 76 of Sri Lanka Public Sector Accounting Standard 01, it had been shown under the current assets in the statement of financial position. Further, although more than 07 years had elapsed since this project was started, the fair value of the investment property had not been assessed and the adjustments had not been made in the financial statements in terms of Paragraph 42 of Sri Lanka Public Sector Accounting Standard 13.

considering the natural location that attracted the attention of tourists and aiming at long-term benefits, and to indicate the fair value in the financial statements of the year 2022 as per Accounting Standards.

property should be assessed and classified as non-current assets and disclosed in the financial statements.

- (d) Although each income and expense recognized in equity and the effect of prior year corrections identified for each component should be clearly stated in the statement of changes in equity in terms of Paragraph 118 of Sri Lanka Public Sector Accounting Standard 01, the Capital Fund, Common Fund, Capital Fund - Kapruka and the Credit Guarantee Fund of the Board had been shown as one item in the statement of change in net assets under the name of accumulated fund instead of being shown separately. Only the net effect of Rs.49,110,416 in the adjustments made in respect of those items in the year under review had been entered in the statement of changes in net assets. Similarly, although a difference of Rs.501,767,769 was observed between the ledger account balances related to these 03 accounts and the balances shown in the financial statements, actions had not been taken to identify the differences and adjust in the financial statements.

Actions will be taken to accurately indicate in the financial statements of the year 2021.

Each income and expenditure recognized in equity and the results of prior year corrections identified for each component should be clearly stated in the statement of changes in equity and the ledger account balances should be included as it is in the financial statements.

- | | | |
|--|--|--|
| <p>(e) Out of the short term fixed deposits amounting to Rs. 11,476,390 to be matured in 03 months and treated as cash and cash equivalents, a sum of Rs.6,131,032 under operating activities and Rs.5,345,358 under investment activities had been stated in the manner of non-compliance with Sri Lanka Public Sector Accounting Standards 02 and the fixed deposit interest income of Rs.905,159 received in cash and interest receivable of Rs.137,925 which should be shown under operational activities had been shown under investment activities. Similarly, short term deposits maturing in 03 months amounting to Rs.5,345,358 had been shown under non-current assets in the statement of financial position.</p> | <p>Actions will be taken to accurately disclose in the financial statements of the year 2021 .</p> | <p>Cash inflows, cash outflows and short-term deposits should be accurately classified and included in the financial statements.</p> |
| <p>(f) Although the buildings, motor vehicles, computers and office equipment fully depreciated by the end of the year under review with a total cost of Rs.375,410,404, were further being used, actions had not been taken to review the useful life of those assets in accordance with Sri Lanka Public Sector Accounting Standards 03 and show them in the financial statements.</p> | <p>Actions will be taken to review and indicate in the financial statements in future years.</p> | <p>Actions should be taken to review the useful life of the assets which are being used and to show them in the financial statements.</p> |
| <p>(g) Although the asset should be recognized as a biological asset when it is probable that future economic benefits related to the asset flows into the entity as per Paragraph 13 of Sri Lanka Public Sector Accounting Standards 18, a number of 7,936 trees with timber value of 38 species of jackfruit, teak etc. in 12 coconut model garden and 5,525 trees with timber value of 46 species in 39 nurseries totalling to 13,461 trees and</p> | <p>Actions will be taken to assess and account for the value of trees with a timber value over a next few years.</p> | <p>When future economic benefits can be expected to flow in to the entity, it should be identified as a biological asset . Cutting and removal of trees should be done under a</p> |

11,605 coconut trees in 39 nurseries had not been accounted for. It had also been reported that 373 trees with timber value were cut down and removed between 2016-2021.

certain standard method.

- (h) When initially recognize a biological asset and at each reporting date, it should be measured at its fair value less costs of sales in terms of Paragraph 16 of Sri Lanka Public Sector Accounting Standards 18, costs to sales had not been deducted in the measurement of biological assets which included livestock of Rs.35,328,456 calculated by weight of animals and establishment costs of Rs.359,988,832 included in the financial statements. Further, the nature of the activities of the biological assets and the estimates of the physical quantities of the agricultural products produced at the end of the period had not been disclosed as per Paragraphs 44 (a) and (b) of the said Standard .
- It has been priced at lower value based on the weight of the animals sold by the coconut model gardens of the Board considering the prices given by the National Livestock Development Board and the market price. It is informed that it will be presented accurately from the year 2022 .
- The fair value of the biological assets should be shown in the financial statements after deducting the cost of sales from the selling price.

1.5.2 Accounting Deficiencies

The following observations are made

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) A difference of Rs.73,729,701 as debits/credits in between the Head Office and the correspondent ledger control current account maintained by coconut model garden and the current accounts maintained between coconut model gardens for the co-ordination of transactions of Head Office and 12 model coconut orchards, a difference	The current accounts have not been reconciled since before the year 2000. Necessary steps have been taken to balance the account independently in the accounting year 2022 and it is informed that we will take the most	Actions should be taken to identify the reasons for the differences and remove the balances from the financial statements.

of Rs. 4,675,275 between the control accounts maintained at the head office for controlling the daily expenses of the 39 coconut nurseries belonging to the Board were observed, actions had not been taken to reconcile and adjust these differences in the financial statements.

- | | | | |
|-------------------|--|---|---|
| <p>(b)</p> | <p>In correction of the error of Rs.7,893,816 in the year under review which was paid in 2018 to fertilizer subsidy creditors in 2017, it was debited to the expenditure account of that year instead of debited to the creditor account and a sum of Rs.13,510,360 was debited to the creditor's account and credited to the prior year adjustment account instead of Rs. 7,893,816 . As a result, creditors and accumulated fund were understated and overstated by Rs.5,616,544 respectively in the financial statements.</p> | <p>It will be corrected in the financial statements 2021.</p> | <p>The amount of Rs.5,616,544 over debited to fertilizer subsidy creditor account should be removed.</p> |
| <p>(c)</p> | <p>Although the king coconut promotion fee due from the Coconut Development Authority for the year 2019 and the year under review were Rs.23,433,807 and Rs.23,368,203 respectively, only a sum of Rs.25,000,000 received in the year under review had been accounted as income. As a result, the income had been overstated of by Rs.1,631,797 and the receivables had been understated by Rs.21,802,010 in the financial statements of the year under review.</p> | <p>It is kindly mentioned that the actions will be taken to use the amount of Rs.25,000,000 received for the promotion of king coconut cultivation and considered as income and accounted for in the year 2020 in the event that the relevant transaction is implemented in the future.</p> | <p>Necessary arrangements should be made to account to the accrual basis as king coconut cultivation promotion fees and to use for the promotion of king coconut cultivation.</p> |
| <p>(d)</p> | <p>As a result of accounting for the 07 cheques which had been issued on 28 December 2020 but not credited to the deposit accounts and kept up to January 2021 valued at Rs.26,411,351 for crediting the “Security Cover”</p> | <p>This has been corrected in the year 2021 .</p> | <p>The cheques written to the credit to the “Security Cover” depository bank accounts should</p> |

- bank deposit accounts of Kapruka Investment Loan Scheme were inaccurately accounted for as an expense of the Project, the cost of the Project was overstated and the balance of the security cover deposit account was understated by that value in the financial statements.
- (e) The book value of stock amounting to Rs. 273,215,198 had been entered into financial statements without accurately identifying the net realizable value or cost of stock after completion of physical verification of the stock of the Board as at 31 December 2020 .
- (f) As a result of an expenditure of Rs.2,577,450 incurred for building repairs in the previous year had been capitalized to building account instead of accounting for as a prior year adjustment, the building costs and the accumulated surplus were overstated by the same amount in the financial statements.
- (g) Even though a fixed deposit valued at Rs. 2,417,120 had been given as a security in December 2020 in order to obtain credit cover for import of black beetle pheromones from a private company in India, a disclosure had not been made in the financial statements in that regard.
- (h) Although the Predator Mite Packet Stock included in the financial statements as at 31 December 2020 was Rs.2,094,043, thus the stock applied to calculate the profit of Mite Project for the year under review was Rs. 1,495,920, a difference of Rs. 598,123 was observed.
- The Board of Survey has been completed by now.
- It will be corrected in the year 2021 .
- As the work has been completed by now, arrangements have been made to hand over the certificate back to the Board. I would like to inform you that such transactions will be disclosed in the financial statements in future.
- It has been corrected in the final accounts for the year 2021 .
- be promptly credited to the deposit accounts without delay and correct the accounting error.
- The value of physical stocks should be disclosed in the financial statements.
- The recurrent expenditure should be deducted from the building account.
- It should be disclosed in respect of the giving security by using fixed deposits in the financial statements.
- Stock should be accounted for at the accurate value on year-end calculations.

- (i) Although the amount paid for the construction of the quarters of the Officer-In Charge of the Nursery in Jaffna Devapuram Coconut Seedling Nursery, which was commenced in 2018 but was not completed even by the end of the year under review, was Rs.539,080, the value included in the work-in-progress account was only Rs.263,450 . The reasons for the difference of Rs.275,630 had not been furnished.
- An accurate answer has not been furnished.
- The reason to appear the amount of Rs.275,630 accounted for less than the amount paid should be investigated and corrected.

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements Rs.	Value as per the corresponding reports Rs.	Difference Rs.	Comments of the Management	Recommendation
Amounts payable to the Coconut Research Board for the purchase of seed coconuts and coconut seedlings	17,244,333	28,794,390	11,550,057	The total to be paid to the Coconut Research Board as at 31.12.2020 was Rs.17,244,333 such as Rs.13,444,533 for seed coconuts and Rs.3,799,800 for coconut seedlings.	It should identify the causes and the difference should be removed.

1.5.4 Lack of Written Evidence for Audit

Item	Amount	Audit Evidences Unavailable	Comments of the Management	Recommendation
26 Debtor Accounts	17,880,698	Balance confirmation letters	Letters have been issued to submit the confirmation of debtor balances.	Physical existence of debtor balances should be verified
Fixed Deposits	30,415,239	Register and	Actions will be	Actions should be

schedule	taken to prepare a separate register in respect of fixed deposits in the year 2021 .	taken to maintain a Register of Fixed Deposits and to prepare a schedule of the using that and submit it with the financial statements.
----------	--	---

1.6 Receivables and Payables

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) Proper actions had not been taken to recover a debt balance of Rs.1,446,465 in between 01 and 10 years from 99 employees who had left the service .	Future actions will be taken in accordance with Financial Regulations.	Proper steps should be taken to recover the outstanding debts of employees.
(b) The Board had failed to recover a total of Rs.6,875,860 as Rs.6,573,572 receivable from the Ministry of Coconut Development and Janatha Estate Development and Rs.302,288 receivable from the sale of coconuts to Lanka Sathosa in 2014 for Weligama Disease Spread Programme and Organic Fertilizer Programme in the years 2013 and 2014 .	It is informed that the discussions will be made with the relevant Line Ministry for Rs.6,573,572 receivable from the Ministry of Coconut Development and Janatha Estate Development.	Proper actions should be taken to recover the amount receivable.

1.6.2 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) The retention of Rs.1,385,073 related to 25	Actions will be taken to credit the amounts retained for more	Necessary actions should be taken to

- construction works had been shown under trade creditors without being settled for a period in between 03 to 06 years.
- (b) Actions had not been taken to settle the employee security deposit balances totalled to Rs.583,066 received from 08 employees who have resigned by now.
- (c) Even though the Gliricedia Cultivation Project in coconut model gardens of the Board was completed in the year 2017, actions had not been taken to settle a balance of Rs. 4,676,402 payable in the name of 03 institutions for that.
- (d) A total of Rs.798,776 which was received from Line Ministry and unutilized had been remained in idle in bank current accounts without taking any action to settle as Rs.230,324 for the Tube Well Project and Rs.568,452 for the Fertilizer Subsidy Project in the years 2011 and 2017 .
- than two years to the settle the old government revenue. retentions.
- Actions will be taken to further investigate and settle these security deposits which were kept by 08 officers who had served many years ago.
- When employees leave the service, the security deposit balances in their name should be cleared.
- Since it was more than two years , notes were made to be transferred to coconut model gardens income in the year 2021 as per Financial Regulations.
- Actions should be taken to settle a balance payable.
- Actions will be taken to transfer to the government revenue.
- Arrangements should be made to credit the government money related to the unfulfilled projects to the government revenue.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 11 (b) of the Finance Act No. 38 of 1971	Although the concurrence of the Minister of Finance and the approval of the relevant Minister should be obtained	It is informed that when making investment in fixed deposits in future, actions will be taken to obtain the approval	The concurrence of the Minister of Finance and the approval of the relevant Minister should be obtained

- | | | | |
|--|---|--|--|
| <p>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> | <p>for a fixed deposit investment, such approval had not been obtained for Rs.92,394,311 invested in 18 Fixed Deposits of the Board as at 31 December 2020 .</p> | <p>of the Minister of Finance in terms of the Finance Act.</p> | <p>when investing money in fixed deposits.</p> |
| <p>(i) F.R. 137 and 138</p> | <p>Although, the authorized officers should take actions to approve the voucher and certify as it is correct and complete in all respects before the payment is made, 04 vouchers valued at Rs.301,277 had been paid without obtaining the approval and one voucher valued at Rs.100,000,000 had been paid without being certified.</p> | <p>It is informed that the every voucher provide for payment are prepared by the Financial Division in accordance with the Financial Regulations and after confirming all attachments and file connections and transparency of payment and after obtaining the relevant approval and entering in the prescribed expenditure documents, the voucher is certified and the related payments are made.</p> | <p>Before making payment, actions should be taken to approve the voucher by the authorized officers and to certify that it is accurate and complete in all respects.</p> |
| <p>(ii) F.R. 381</p> | <p>It was not observed that the Treasury approval has been obtained for the 10 bank current accounts maintained by the Board and the matters had also not been</p> | <p>The approval of the Board of Directors has been obtained in opening bank current accounts. It is stipulated to close by considering and reviewing the future</p> | <p>Unnecessary bank accounts should be closed.</p> |

presented on the necessity of maintaining two separate current accounts for the payment of festival advances and distress loans to the employees.

requirement of the Bank of Ceylon current account where festival advances are paid for employees.

(iii) F.R. 395

Although a bank reconciliation statement regarding the status of transactions at the end of each month should be prepared and certified by the Paying Officer and submitted to the Auditor General before the 15th day of the following month, 22 monthly bank reconciliation statements related to 03 bank accounts submitted for audit had not been approved by the authorized officer.

The errors in the bank reconciliations of 03 bank current accounts have been corrected by 31.12.2021 and the corrections are being done in the current account ending with 971 .

Reconciliation statements should be prepared and certified by the Paying Officer and submitted to the Auditor General.

(iv) F.R. 756

A physical verification of the property, plant and equipment of the Board had not been carried out as at 31 December 2020 and the cost of those assets included in the financial statements was Rs. 1,289,265,602.

The answers on physical verification of property, plant and equipment have not been provided.

A physical verification of the property, plant and equipment of the Board should be carried out by 31 December 2020 .

(c) Establishments
Code of the
Democratic
Socialist
Republic of Sri
Lanka

(i) Paragraph 13.3 of
Chapter II and
Section 9.3.1 of
Public
Enterprises
Circular No. PED
12 dated 02 June
2003

Since an acting appointment to a vacant post should be made as a temporary remedy until a regular appointment is made, although its maximum period should be only 03 months, without making appointments to qualified officers for 60 vacant posts, it was run for a period of 03 months to 04 years 09 months on the acting basis. Among them there were the posts of Deputy General Manager (Finance Management) and Deputy General Manager (Extension and Development) of the Board.

Although preliminary steps have been taken to recruit to the vacant posts, all recruitments have been directed to get the approval of the Ministry according to the decision of the Cabinet to discourage recruitment as per the Memorandum of Cabinet of Ministers dated 31.08.2021 and actions will be taken accordingly.

Vacant posts should be filled with regular staff immediately.

(ii) Paragraph 12.2.6
of Chapter VII

The approval of the Secretary to the Ministry had not been obtained for the payment of acting salaries and the salary paid during the year under review was Rs.4,925,474.

Comments have not been given.

Acting salaries paid without obtaining the approval of the Secretary to the Ministry should be treated as illegal payments.

- (d) Paragraphs 5.2.4 and 5.2.5 of Public Enterprises Circular No. PED/12 dated 02 June 2003
- Although the Board of Directors should approve the Budget 03 months before the commencement of the financial year and its copies should be submitted to the Line Ministry, the Department of Public Enterprises in Treasury and the Auditor General 15 days before the commencement of the financial year, The Board had proceeded during the year under review without having an approved Budget.
- The Expenditure Heads of the Coconut Cultivation Board were managed under the financial allocations provided by Vote on Account Budget during the financial year 2020 and an approved estimate has been executed.
- Annual Budget should be prepared and submitted to the relevant institutions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs. 131,470,030 and the corresponding surplus of the preceding year was Rs. 141,088,348. Accordingly, a deterioration of Rs. 9,618,318 in financial results was observed. Increase of the development programme expenditure of the Board in the year under review by Rs.232,268,006 as compared to the previous year had mainly attributed for the deterioration of operating result.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) Within the property plant and equipment cost at Rs.1,513,300,588 as per Register of Fixed Asset of Coconut Plantation	Actions will be taken to submit an analysis of the indicated assets in future years.	All the assets should be specifically identified and

	<p>Board, the assets in 07 asset categories cost at Rs.86,383,238 had not been specifically identified.</p>		<p>documented.</p>
<p>(b)</p>	<p>The government fertilizer subsidy amounting to Rs. 26,888,839 which had been credited back to the bank account of the Board due to the bank accounts of the farmers being inactive though it was debited to the expenditure in the years 2016, 2017, 2018 and 2019, it had been credited to a liability account called “Cancelled Cheques” and carried forward from the financial statements without being settled and without taking actions to send to the Treasury.</p>	<p>Arrangements will be made to transfer it to government revenue.</p>	<p>Government fertilizer subsidies which were not given to farmers should be sent to the Treasury.</p>
<p>(c)</p>	<p>An unidentified debit balance of Rs.65,989 and an unidentified credit balance of Rs.2,497,497 belonging to 03 bank accounts have been bringing forward in bank reconciliations for a long period without being settled.</p>	<p>Actions will ne taken to correct.</p>	<p>Actions should be taken to accurately identify all the receipts and payments included in monthly bank statements and adjust the accounts for each month.</p>
<p>(d)</p>	<p>Out of the amount of loan paid to cover the risk of non-repayment of the loan under the Kapruka Investment Loan Scheme, the balance of the security cover in regular savings accounts maintained by the respective banks was Rs.34,628,880 by contributing 10 per cent by the Board and contributing 0.5 per cent the Bank at the end of the year under review and the security cover that had to be paid on behalf</p>	<p>Actions will be taken to invest the extra money in a state bank that offers a higher rate of interest by looking into the possibility of further reduction of the amount to be held in the accounts.</p>	<p>The security coverage contribution rate of the Board should be re-reviewed.</p>

of 22 borrowers was Rs.1,770,326 during the 20 years since the beginning of the loan scheme. Accordingly, it was observed that the as high as 10 per cent of the loan amount given despite the risk of loan default is very low the contribution of the Board is retained in bank accounts at interest accrued on ordinary savings accounts.

- | | | | |
|-----|--|---|---|
| (e) | The seed coconut production of 2,733,684 nuts, 737,418, 1,413,010 and 484,774 nuts respectively during the last 04 years from 2016 to 2019 had dropped to 327,587 nuts in the year under review. | According to the financial allocation receive for the production of coconut seedlings, the increase and decrease of supply of seed coconuts happen in every year. | The production of seed coconuts should be done considering the annual requirement of coconut seedlings and the capacity of nurseries. |
|-----|--|---|---|

3.2 Transactions in Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) A special investigation had revealed that two employed women officers of the Employees' Provident Fund of the Board, which is audited by private auditors, governed by a Board of Governors comprising the Board's Chairman, General Manager and Deputy General Manager (Finance) between 2015 and 2021, had written 50 cheques in their own name and in the name of their relatives at 50 instances and the funds of	By following a formal system, financial control authorities are delegated, payments are made based on the recommendations of the Human Resource Management Division, cheques are prepared and payments are made after carrying out a full inspection by the Internal Audit Division at present.	The activities such as establishing of proper internal control procedures regarding the affairs of the Fund, conducting an internal audit, updating the books of accounts and documents, delegating financial control authorities, preparing a proper internal transfer

Rs.73,839,369 were defrauded. It was further observed that the governing body of the Fund did not perform its responsibility properly and of the matters such as failure to establish proper internal control systems and conduct an internal audit regarding the affairs of the Fund, failure to update account books and documents, allowing the same officers to carry out the functions of the Fund for many years without delegating financial control powers and failure of bringing the affairs of the Fund to the attention of the Labour Commissioner were the reasons for the fraud. The defrauded money was not recovered and it was further observed that the disciplinary actions against the responsible officers is being taken slowly.

- (b) Even though the case was filed to recover Rs.3,808,156 due from two private companies that bought coconuts from the Board in 1997 and 1999, as those cases were not handled properly, it was not possible to collect the money for 23 and 24 years. Out of this, although the Attorney General's Department had closed the case in 2017, stating that W. T.Vass, Company from which an amount of Rs. 2,631,781 should be charged could not be found, being observed that the Company is registered in the Coconut

system, bringing the affairs of the Fund to the attention of the Labour Commissioner, in such a way as to enable the recovery of defrauded money should be carried out.

Actions are being taken in this case since 1999 up to now.

Arrangements should be made to conduct the legal proceedings properly and recover the money, and to investigate and take disciplinary action against the officers of the Board for not performing their duties properly.

Development Authority as a Broker Company in the year 2020 and participates in coconut auctions, these are observed as transactions in contentious nature.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Mission of the Board was to achieve a high standard of living for the coconut farmer by increasing coconut production and increasing the productivity of coconut lands through effective counselling and extension services in order to meet Sri Lanka's local consumption demand and export needs, and to achieve self-sufficiency in terms of the powers and duties contained in section 20 of the Coconut Development (Amendment) Act No. 40 of 2003 and a sum of Rs.638 million had been spent annually for that. Nevertheless, it was observed that there was a shortage of 626 million coconuts out of 3,418 million coconuts which was the general requirement for the country's food, other products and exports including coconut oil.</p>	<p>Due to the effects of the external environment, the amount of coconuts planted in the field that become productive trees is usually about 60 per cent, the amount established in the field is about 21.8 million out of the 36.41 million coconut seedlings distributed by the Board since 2003 . From a considerable amount of coconut lands a number of 20,000 acres of coconut per year also reduce yield due to aging and urbanization. Accordingly, there was a reduction in the yield of 14.08 million coconut trees in the island in the 11 years between 2003 and 2013 and the amount of remaining coconut trees will be about 7.72 million and about 120,625 acres. According to the data of Department of Census and Statistics, the number of coconut acres increased from 2002 to 2014 by 112,000 .</p>	<p>The work prescribed by the Act should be performed by mitigating identified problems and working efficiently to achieve self-sufficiency.</p>
<p>(b) Although the Board is running 12 coconut model gardens to introduce proper cultivation methods as per the duties assigned to the Board by the Coconut Development</p>	<p>It was difficult to get the desired output as per the facts such as decrease in national harvest, decrease in yield due to reduction of water and nutrient retention during long dry periods</p>	<p>Model coconut plantations should be maintained efficiently in order to</p>

(Amendment) Act No. 40 of 2003, out of their total land area of 3,790.07 acres, the land under coconut cultivation was 3,135.83 acres and also the out of 1,668.98 acres of productive coconut plantations with 106,834 productive coconut trees, the number of yielded nuts was 5,024,208 in the year 2020. The yield was 1.47 million nuts or 23 per cent lower than the 2019 year and 1.69 million nuts less than the estimated coconut yield. It was observed that the coconut gardens are not maintained at model level due to the matters such as the annual average yield of a coconut tree in 09 coconut gardens is less than 60 nuts, 24,209 coconut trees need to be planted, 44 percent of 106,834 trees are unfruitful, Mite damage and other factors, a number of 1,300,617 nuts which is 26 per cent were not productive.

(c) Although an expenditure of Rs. 25,060,048 incurred exceeding the income of Rs. 16,133,667 by Rs. 8,926,381 in the year 2020 in the two coconut model gardens in Pasikuda and Tharmakarni, it was observed that the two coconut plantations continue to be unprofitable, the necessary measures had not been taken to make the projects successful.

(d) Even though a sum of Rs.1,002,721,100 had been

due to lack of land with S1 and S2 soil groups in many lands owned by the board, planting of fallow plants due to intercropping and animal control, and keeping fallow plants free from animal damage are problematic. The occurrence of transportation problems due to the Covid epidemic situation, lack of experienced workers and inability to control the percentage of immature and small nuts were also the reasons.

After the end of the war situation, the development of coconut plantations had commenced in these coconut orchards and 18,357 coconut seedlings were planted in Palai and 9,286 coconut seedlings were planted in Pasikuda and about 30 per cent have reached the productive stage so far. With the harvest of seedlings, it will gradually become profitable in the next 03 years.

A large number of beneficiaries were given subsidies through

introduce proper cultivation methods according to the functions prescribed by the Act.

The reasons for unprofitability should be found and actions should be taken to find out the causes of unprofitability and apply necessary remedies to make the projects successful.

Follow-up actions should be

- paid as fertilizer subsidies to farmers through regional offices in between 2016 and 2018, since there was no follow-up on it, it could not be confirmed that whether the fertilizer subsidy of the government was used effectively.
- (e) An expenditure of Rs.131,673,048 was incurred during the period 2013-2020 to control the disease including a compensation of Rs.580,956,180 for 275,942 diseased coconut trees removed to control “Weligama Coconut Leaf Wilt Disease” and “Leaf Rot Disease” in Southern Province. Nevertheless, it was observed that because the 11,240 identified diseased trees were not removed and destroyed in terms of the provisions of sub-section 4 (2) of the Plant Protection Act No. 55 of 1999 , it was not possible to suppress or control the disease.
- (f) It had to carry out coir, copra, coconut shell charcoal, coconut husk chips, coconut oil, coconut seedlings, intercropping seedlings and fertilizer production, cultivation of intercrops in addition to coconut cultivation with the aim of distributing high quality seed coconuts, coconut seedlings and by-products to consumers, animal husbandry, running circuit bungalows and running Kapthurupaya sales outlets,
- cheques for fertilizer application under this programme as per the recommendation of our Coconut Development Officers and we did not have enough staff to follow up.
- Cultivators do not remove because of more productive in trees which show disease symptoms at that time. The Board then destroys them using chemicals (Glyphosate). Due to the fact that the chemical Glyphosate was banned in Sri Lanka during the relevant period it was impossible to destroy the number of trees.
- The attendance of employees was in poor condition in view of the prevailing Covid epidemic situation and the projects are being successfully implemented again at present.
- Properly carried out to ensure that government fertilizer subsidy is effectively used.
- Necessary measures should be taken to suppress or control the disease as per the provisions of the Plant Protection Act.
- Coconut gardens should be run at a model level as a profitable business.

cultivating paddy and rubber according to the potential of coconut gardens, implementing coconut tourism project and Gliricidia projects by maintaining coconut model gardens at model level as a profitable venture based on coconut cultivation. Nevertheless, due to the fact that the many of the ongoing projects had been discontinued and no new projects had been commenced by the year under review, it was not observed that the coconut plantations were run at a model level as a profitable business.

- | | | |
|---|--|--|
| <p>(g) It was observed that the planned progress had not been achieved as per the facts such as saving of Rs.226.72 million or 28 per cent of the allocation of Rs.800 million made available under 07 programmes in the year under review, saving of Rs.49,983,200 or 60 per cent of the subsidy of Rs. 83,000,000 planned to be provided for 1,660,000 coconut plants and the progress of 04 other programmes was in between 5 and 64 per cent .</p> | <p>Receiving of Rs. 240 million out of the provision in December and the Covid pandemic situation had affected for field duties.</p> | <p>Development projects should be implemented by efficiently utilizing the provision under a properly planned programme.</p> |
| <p>(h) Out of 6,735,000 coconuts planned to be received from the coconut model gardens of the Board in the year under review, the yield received was 5,022,976 nuts and although it was planned to earn Rs.11,781,000 through the production of coir fibre and</p> | <p>Failure of applying of chemical fertilizers, decrease in rainfall and high temperature had affected the productivity. Since China, the main buyer of coir, stopped receiving coir, the lack of adequate prices and the prevailing Covid epidemic situation had affected this.</p> | <p>coconut model gardens should be managed efficiently with properly planned goals and achieve the maximum performance</p> |

coir dust and a sum of Rs.16,914,764 through animal husbandry projects, the earned income was Rs.3,491,040 and Rs.7,608,885 respectively. Further, the income of Rs. 4,878,000 planned to be earned from the sale of by-plants in 03 coconut model gardens was not earned and the income earned was Rs.4,986,688 through inter-crop cultivation made by incurring Rs. 12,701,010 with the expectation of earning an income of Rs. 27,158,090. As a result, it was observed that the planned progress had not been achieved in the coconut model gardens.

- (i) It was observed that the activity of uplifting the economic condition of the planters had not been done properly because of the number of disease-resistant coconut plants that were given for 308,056 diseased trees that were cut to control "Weligama coconut leaf wilt disease" and "leaf rot disease" in the southern province was only 88,478 and failure to distribute alternative crop seedlings to landowners during 2018-2020 .

Although the Coconut Research Institute provided 5,200 coconut plants of the green Kundira variety to withstand this disease, since they are a very small variety of coconut and are not an option and cannot be used as an economic crop, the supply of coconut seedlings of that variety has been suspended. So far, the Coconut Research Institute has not recommended a suitable resistant coconut variety to the disease. An inter-crop subsidy has been provided for planters who prefer alternative crops.

levels.

Necessary measures should be taken to implement disease control methods and to properly carry out the activity of raising the economic status of the planters.

3.4 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>(a) The amount of Rs.2,149,273 paid to a private consultancy firm in the year 2016 for preparing the procurement documents, plans and Bill of Quantities related to the construction of a new office building in the Negombo Coconut Seed Orchard without allocating the necessary funds was an idle expenditure.</p>	<p>It has been noted to carry out the future accounting activities as per the decisions of the management considering the limits and financial conditions given for the new constructions at present.</p>	<p>The activities should not be executed without making necessary provision and disciplinary actions should be taken against officers responsible for idle expenditure.</p>
<p>(b) Despite the payment of Rs.9,697,964 which is 94 per cent of the contract awarded for Rs.10,321,851 in the year 2013 to an contractor who had not registered of ICTAD in contrary to the Guideline 5.3.5 (a) of the Government Procurement Guidelines 2006 for the construction of an official quarters in Pasikuda had been stopped on the halfway in the year 2015 and the contract had been suspended in the year 2016 .</p>	<p>As the performance was not done properly, the contract has been suspended by paying the amount due in accordance with the recommendation of the construction consultant for the work completed by the contractor by obtaining the joint measurements in the year 2016 .</p>	<p>The proposed construction should be completed without delay.</p>
<p>(c) Despite an amount of Rs.744,405 was paid in the year 2015, the construction works of the second phase of the Kurunegala Divisional Manager's official residence with a contract value of Rs. 2,108,886 was handed over to the Building Department it had been stopped halfway and the money paid had been retained in the work-in- progress account for 06 years. .</p>	<p>Actions will be taken to work with the Building Department and recover the amount.</p>	<p>Actions should be taken to recover the money.</p>

3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) The approved cadre of the Coconut Cultivation Board was 918 and the actual cadre was 664 as at 31 December 2020 and steps had not been taken to recruit as appropriate or to revise the staff reconsidering the requirement in respect of 254 vacancies remained such as 02 Senior Management posts of Deputy General Manager (Finance Management) and Deputy General Manager (Extension and Development), 08 Middle Level Management posts, 51 Junior Management posts, 165 Management Assistant posts and 28 Primary Level posts.</p>	<p>Because recruitment is discouraged, approval has not been received so far.</p>	<p>Steps should be taken to recruit as appropriate or to revise the staff reconsidering the requirement.</p>
<p>(b) It was observed that the remaining of vacancies 43 out of 145 regular staff and 08 out of 10 contract staff in the plantation sector which is maintained with the approval of the Management Board affect the activities of the 12 coconut model gardens.</p>	<p>Actions will be taken to carry out the recruitment by obtaining recommendations regarding the number of vacancies and the number of posts which should be recruited while maintaining the productivity of the model coconut plantations.</p>	<p>Steps should be taken to recruit as appropriate or to revise the staff reconsidering the requirement.</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation

Although the Financial Statements should be submitted to the Auditor General with the Draft Annual Report within 60 days of the end of the financial year in terms of Paragraph 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements of the Board for the year under review had been submitted on 15 November 2021 after a delay of 09 months and 15 days.

Comments of the Management

It is informed that all necessary efforts will be made to prevent these delays in the future years.

Recommendation

The financial statements should be submitted to the Auditor General within 60 days of the end of the financial year .