

Kithul Development Board - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kithul Development Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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 Coconut Development Act, No. 46 of 1971 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 of the Board.

1.4 Audit Scope (Auditor's Responsibility 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board 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 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 Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to relevant Standard	Management Comment	Recommendation
(a) Contrary to paragraph 27 of Sri Lanka Public Sector Accounting Standards No. 02, the previous year adjustments had adjusted the cash flow generated from operating activities by Rs. 308,613 as cash receipts and Rs. 298,288 as cash payments.	Accepted. Rectifications have been made in the financial statements for the year 2024.	Cash flows should be prepared in accordance with the Standard.
(b) In depreciating assets, the Board had followed the policy of not depreciating assets in the year of purchase and depreciating them for the entire year in the year of disposal, contrary to paragraph 69 of the Sri Lanka Public Sector Accounting Standards No. 07.	The accounting notes of the Board have been rectified from the year 2024 to calculate depreciation in accordance with paragraph 69 of Sri Lanka Public Sector Accounting Standards No. 07 regarding the depreciation of an asset.	Action should be taken to depreciate the assets in accordance with the Standard.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The Board had not made any provision in the financial statements for the audit fees to be paid for the years 2022 and 2023.	No financial provision was made in the Annual Budget for the year 2022 for this Board, which was then under the Ministry of Agriculture and Plantation Industries, and all expenses were incurred by that Ministry. It was observed that in the Annual Budget for the year 2023, an allocation was	Necessary provisions should be made in preparing financial statements.

made for other services under other recurrent expenditure mentioned under Expenditure Head 135-2-4-21-1509 (Sub-Expenditure Head 1409).

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

	Reference to Laws, Rules, Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a)	Section 6.6 of the Operations Manual of the Public Enterprises Circular No. PED 01/2021 dated 16 November 2021.	Even though the financial statements and draft Annual Reports should be submitted to the Auditor General within 60 days of the end of the accounting year, the financial statements relating to the year 2023 were submitted to the audit on 17 September 2025, with a delay of 01 year and 06 months. The draft Annual Report for the year 2023 had not been submitted to the Auditor General by 22 October 2025 and the Annual Report for 2022 had not been tabled in Parliament to date.	Accepted. Action is being taken to table the Annual Report for the year 2022 in Parliament.	The financial statements and draft Annual Reports should be submitted to the audit on the due date.
(b)	In accordance with the Public Enterprises Circular No. PED 01/2021 dated 16 November 2021 of the Secretary to the Treasury, paragraph	An action plan had not been prepared in accordance with the correct format, including the objectives, strategies, activities,	Accepted. Actions have been taken to prepare the Action Plan for the year 2026 in accordance with the correct format.	An Action Plan should be prepared in accordance with the correct format in terms of the Circular referred.

	02 of the Annexure 01 of the Guidelines on Corporate Governance.	monthly targets and responsible officers of the institution.		
(c)	Section 04 of the Public Administration Circular No. 02/2018 dated 24 January 2018.	A Human Resource Development Plan had not been prepared.	Accepted. The Human Resource Plan prepared for the years 2025-2028 has been submitted to the approval of the Board of Directors. After receiving the approval of the Board of Directors, action will be taken to submit a copy thereof to the Auditor General.	A Human Resource Development Plan should be prepared in terms of the Circular referred.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 700,762, and the corresponding surplus in the preceding year amounted to Rs. 405,859. An improvement amounting to Rs. 294,903 of the financial result was observed compared to the preceding year. The reason for the improvement was mainly due to the decrease in supplies and consumption expenditure by Rs. 4,215,553, salaries, wages and employee benefits by Rs. 750,565 and Government grants by Rs. 4,217,525.

2.2 Analysis of Major Income and Expenditure Items

Item	Year under Review	Preceding year	Variance with Preceding year	Percentage of Variance
	Rs.	Rs.	Rs.	Percent
Government Grants	13,680,058	17,897,583	(4,217,525)	(23)
Salaries, Wages and Employee Benefits	2,939,344	3,689,909	(750,565)	(20)
Supplies and Consumption Expenditure	3,313,820	7,529,373	(4,215,553)	(53)

2.3 Ratio Analysis

The current asset ratio in the year under review was 47:1, while in the preceding year the said ratio was 1:1.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In comparing the budgeted expenditure and actual expenditure for the year 2023, the actual expenditure was less than the budgeted expenditure by more than 50 percent. Therefore, it was observed that the budget estimates were not prepared realistically.	Accepted. Since the inception of the Kithul Development Board until today, duties have been carried out with a limited staff amidst great difficulties. Therefore, it has been observed that it was not possible to many of the tasks expected in the Action Plan have not been carried out.	The budget estimates should be prepared realistically.
(b)	According to the Extraordinary Gazette dated 17 March 2021 relating to the establishment of the Kithul Development Board, the necessary measures had not been taken so far to carry out the functions expected to be performed by the Board, namely, providing support, promoting and regularizing the cultivation of Kithul on the lands expected to be cultivated, promoting the engagement in animal husbandry on the lands where Kithul cultivation is carried out, popularizing and promoting the cultivation of coconut and other crops in Kithul cultivations, and producing Kithul products and providing support and promotion thereof.	Accepted. Since its inception till today, the Kithul Development Board has been carrying out its duties with a limited staff amidst great difficulties. Therefore, it has been observed that it has not been possible to complete the remaining parts of this task contained in the Action Plan.	Necessary steps should be taken to implement the necessary tasks to achieve the basic objectives of establishing the Kithul Development Board.

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| (c) | Even though Rs. one million was allocated to establish a village for Kithul-related products in the year 2023, only Rs. 660,000 or 66 percent of it was spent, and no Kithul village was established. | It has been observed that the expected task has not been accomplished due to the minimum staff existed. | Progress should be maintained at an optimal level through effective preparation and revision of Annual Plans. |
| (d) | According to 2023 Action Plan, Rs. 600,000 had been allocated to create a website for the Kithul Development Board. However, the expected task had not been accomplished. | According to 2023 Action Plan, Rs. 600,000 had been allocated to create the website of the Kithul Development Board. However, due to the insufficient staff of this Board, it had to be satisfied with only carrying out procurement activities to create the website by the end of the year 2023. However, the creation of the website of this Board has already been completed, and the website has also been launched. | Programs should be planned and implemented to improve the productivity of the Kithul Development Board. The allocated funds should be used effectively. |

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
The Board had obtained various services on 04 occasions without calling quotations from suppliers by paying a sum of Rs. 1,696,839.	Accepted. All officers of the Board have been informed to take action in accordance with the Procurement Guidelines-2024 and the Circulars issued.	Action should be taken in accordance with the Procurement Guidelines and the Circulars issued.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
The Scheme of Recruitment for the approved cadre of the Kithul Development Board was approved by the Department of Management Services on 20 December 2021. However, it was observed that the Internal Auditor post, 15 Research and Development Assistant posts and	This Board was established in the year 2021, and it is observed that recruitments have not been made by the end of the year 2022, as per the Circulars issued by the Ministry of Finance from time to time to control public expenditure. ⁵ Management Assistant (Non-Technical) officers	Recruitment for essential posts to properly perform the functions of the Board should be carried out without delay.

09 Management Assistant posts were vacant, and that the duties of the General Manager post and 4 Assistant/Deputy Manager posts were being performed by acting officers. were recruited by the year 2024. Further, two officers have been recruited on a permanent basis for the posts of Finance (Assistant Manager) and Marketing (Assistant Manager) at the beginning of the year 2025.