

Provident Fund of Coconut Cultivation Board - 2021

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Provident Fund of Coconut Cultivation Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information was carried out under my direction in pursuance of provisions of the National Audit Act No.19 of 2018 and the Finance Act No.38 of 1971 read in conjunction with Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. 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 Fund. Because of the significance of the matters discussed in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special

- directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations regarding the preparation of financial statements

1.5.1 Accounting deficiencies

Audit observation	Management Comment	Recommendation
(a) Fraudulent payments had been made from this Provident Fund and as per file No.E/04/12/Mu.Vi/Podu/Upa/2021-22/II submitted to the Attorney General , it was stated that the amount fraudulently paid was Rs.78,277,691 as at 31 December 2021. Since a sum of Rs.10,112,659 had been recovered during the year 2021, the outstanding amount as at 31 December 2021 was Rs.68,165,032. However the fraudulent amount was understated by Rs.42,314,702 as the fraudulent amount was accounted for as Rs.25,850,330 in the statement of financial position .	After the discovery of the frauds in March 2021, the final accounts for the year 2021 were prepared in 2023. By that time, final accounts had been prepared only up to the year 2018, and no fraud had been revealed in those accounts. Therefore, no adjustments related to the fraud were made for the previous years. (Accounts were prepared on a cash basis.) That is, since the original source documents after the fraud were unreliable, the final accounts for the years 2019, 2020, and 2021 were prepared on a cash basis using bank statements. As a result, only the fraudulent amount during each respective year were adjusted, while the total fraudulent amount was disclosed through notes. Furthermore, since legal proceedings regarding this fraud have not yet been concluded, no reconciliations were made in the accounts, and the matter was instead disclosed through notes. However, when preparing Form N for the transfer of this fund to the Central Bank, individual reconciliations were carried out based on the total fraudulent amount adjusted to the equity as stated by the audit.	The amount of fraud should be corrected as Rs.68,165,032. Action should be taken to recover that amount immediately.
(b) Although the value of loan installments charged in December for loans issued to employees by the Fund was Rs.2,294,696 as per the loan ledger and the payroll of the Board, it was accounted as	In cases where employees who have taken loans from the Fund leave the service or are dismissed due to any disciplinary action, the loan balances they have taken will be credited directly to the Fund. This charge has also been accounted for accordingly. That is, apart from the 10%,	The values in the financial statements should be compared with the information in the schedules.

Rs.2,432,621 as per the financial statements. Thereon, a difference of Rs.137,925 was observed.

15% contributions provided by the Board and the fixed deposit interest, no other deposit had been charged to the Fund.

The Bank of Ceylon, Mawanella, has made a written inquiry regarding the cheque number 585863 of Rs.137,925 from People's Bank. This cheque belongs to E.H. Siriwardena, who has left the service of the Board and her debt has now been settled. If any adjustment is to be made, it will be made in the accounts of the year 2022.

(c) Since a loan ledger, a daily-updated cash book, and loan files containing loan agreements had not been properly maintained for the fund, the accuracy of the final balances of Rs. 770,341,970 in the members' fund and Rs. 173,076,906 in the members' loan account could not be satisfactorily verified during the audit. Furthermore, although the members' loan balance was shown as Rs. 173,076,906, according to the loan registers and the age analysis, the balance amounted to Rs.166,996,120 resulting in a difference of Rs.6,080,786.

This difference of Rs. 6,080,786 in the loan balance had arisen due to the inaccuracy of the opening loan balance and the inclusion of fraudulently issued cheques within the loan accounts.

Evidence should be submitted to verify the accuracy of the members' fund account and the members' loan balances.

1.5.2 Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
Loan payments	2,347,006	Payment vouchers and supporting documents	During this year, the fund was managed by individuals directly involved in the fraud, and this has occurred because they did not properly maintain source documents.	The audit evidence required to verify the payments should be submitted to the audit.

1.6 Non-compliance with Laws, Rules, Regulations and management decisions, etc.

Reference to Laws, Rules and Regulations	Non-Compliance	Management Comment	Recommendation
Section 27 (3) of the Employees Provident Fund Act No.15 of 1958 and Section 6 (II) of the Coconut Cultivation Board Provident Fund Act approved by the Department of Labor on 02 May 1973	<p>The constitution of an approved provident fund shall not be altered except with the written approval of the Commissioner of Labour or the Commissioner of Provident Funds. Moreover, with respect to any matter for which no specific regulations have been issued, action should be taken in accordance with a decision approved by the majority of the Governing Committee, and only after obtaining the concurrence of both the Commissioner of Labour and the Commissioner of Inland Revenue.</p> <p>However, without obtaining such approval, the Governing Committee, at its meeting held on 19 June 2008, decided to make advance payments to members in two instances first, upon reaching the age of 55 years, and again after 2.5 years, that is, upon reaching 57.5 years of age. This decision had been implemented, and accordingly, during the year under review, advance payments totaling Rs.2,240,000 had been made to three officers.</p>	All decisions taken by the current Governing Committee will be subject to the direct supervision of the Commissioner of Labour and will only be implemented after approval.	Advance payments should be made only in accordance with the constitution of the provident fund or with the approval of the relevant Commissioner.

2. Financial review

2.1 Financial results

The operating result of the year under review was a surplus of Rs. 29,238,768 and the corresponding surplus of the previous year was Rs.46,182,617. Accordingly, a deterioration of Rs. 16,943,849 was observed in the financial result. Decreases in fixed deposit interest during the year under review by Rs. 18,165,207 had been mainly caused for this decline.

2.2 Trend Analysis of Major Revenue and Expenditure Items

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

Item	Year 2021 Rs.	Year 2020 Rs.	Variance Rs.	Variance as a percentage
Income				
Fixed Deposit Interest Income	24,462,607	42,627,814	(18,165,207)	(43)
Membership loan interest	6,967,759	5,700,588	1,267,171	22
Expenses				
Management fees for investment portfolios	2,082,423	1,991,429	90,994	5

- 2.3 (a) The financial statements of the fund had been audited by private audit firms up to the year 2018, and a qualified audit opinion was expressed on the 2018 financial statements. According to the clarification issued by the Attorney General on 26 March 2022, stating that there was no legal impediment to audit the financial statements fund, the Auditor General has been conducting the audit of the fund from the year 2019 onwards.

(b) Member Fund Analysis

The fund had 812 members, and the total value of the members' fund was Rs. 770 million by the end of the year 2021. During the year under review, member contributions amounted to Rs. 84 million, while advances and grants totaling Rs. 6 million were paid. In the same year, loans amounting to Rs.10 million were granted to members, and loan recoveries totaling Rs. 28 million were made.

3. Operational review

3.1 Management inefficiencies

Audit Observation	Management Comment	Recommendation
(a) In relation to the financial fraud committed through cheques of the fund, 13 individuals had been identified as suspects. However, as of now, legal action has been filed in the Kaduwela District Court only against five of those suspects, covering a fraud amount of Rs. 65,609,651. Apart from obtaining the Attorney General's opinion on the actions to be taken against the remaining suspects, no	A complaint regarding the financial fraud that occurred in the Employees' Provident Fund of the Coconut Cultivation Board was lodged with Unit 03 of the Financial and Commercial Crimes Investigation Division of the Criminal Investigation Department (CID) in Colombo. Subsequently, legal action was filed against 13 suspects in the Kaduwela Magistrate's Court under case No. B/45151/21. Out of the total amount defrauded, six individuals have repaid Rs. 10,156,123.	Legal action should be taken to recover the defrauded money.

further information regarding any other legal measures has been presented to the audit. Furthermore, although the fraud had occurred over the period from 2012 to 2021, no legal action had been taken thus far against the seven chairpersons of the fund and the seven general managers, who had been appointed on acting or secondary basis, and who had co-signed the cheques for fund payments during that period. Out of the total amount defrauded, only Rs.15,898,523 had been recovered by 31 December 2024.

Furthermore, by letter No. CCB/GM/EPF/I dated 19 April 2021, a request was initially made to the Attorney General's Department seeking necessary legal advice and assistance to recover the misappropriated funds to the Employees' Provident Fund.

It has also been informed that once the Attorney General's Department provides legal instructions regarding the next steps to be taken against the remaining suspects, further action will be taken accordingly.

- (b) Due to the financial fraud that has occurred in this fund, the basis for writing off losses from each member and the basis for distributing each year's dividends among the membership had not been explained to the members and the member's consent had not been obtained.

It was decided at the General meeting held on 14.03.2023 to transfer the funds to the Central Bank after auditing the Form N, based on the consent of all members to transfer the funds to the Central Bank at the 2021 General meeting.

This calculation was further explained at the General meeting held on 1 July 2024.

The basis for writing off losses should be explained to the members and their consent should be obtained.