

Chilaw Plantations Limited - 2015

The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. My comments and observations on the above financial statements appear in this report. A detailed audit report on the above financial statements was issued to the Chairman of the Company on 28 April 2016.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Establishment and Ownership of the Company

The Chilaw Plantations Limited (CPL) is a limited liability company incorporated under the Companies Act, No. 17 of 1982 in terms of conversion of the Corporations and Government Owned Business undertakings into public companies under the Act, No. 23 of 1987 and re-registered under the Companies Act, No. 07 of 2007. This is a fully owned government Company and the Secretary to the Treasury is being the single shareholder of the Company.

1.3 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Chilaw Plantations Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS / SLFRS)

SLFRS 5 - Non-current Assets Held for Sales and Discontinued Operations: Out of vehicles offered for auction, 5 hand tractors, 4 motor bicycles, 1 trooper and 1 mini backhoe were not sold during the year under review. However, these vehicles were not identified as assets held for sale in terms of provisions in the Standard.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- a) The gain recognized from fair valuation of livestock was Rs. 2,168,000 and it was an increase of 29 per cent with compared to the opening balances of livestock. Further, it was observed an almost 10 per cent decrease in livestock due to deaths of livestock. Therefore, the valuation made by the Company itself was not satisfied in audit.
- b) The income generated from sale of coconut palms during the year under review was Rs. 19,682,141. However, the Company had not recognized the value of the coconut palm at the time of disposals.

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

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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(a) Public Enterprises Circular No. PED/12 of 02 June 2003 - Paragraph 8.9	Final dividends should be made within 15 days after the declarations are made. However, the Company had failed to

comply with this provision.

- (b) Guideline 6.2.2 of Government Procurement Guidelines

Although the period allowed for preparation and submission of national competitive bids was 21 days, the Company had granted only 14 days for calling bids in respect of construction of quarters for its staff.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net profit of Rs. 85,782,509 as compared with the corresponding pre-tax net loss of Rs. 61,272,891 in the preceding year, thus indicating an improvement of Rs. 147,055,400 in the financial results for the year under review. The increase of revenue from sales of coconut and other income was the main reason attributed for this improvement in the financial result for the year under review.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the information made available, some important ratios of the Company for the year under review and the preceding year are as follows.

	2015	2014
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Gross Profit Ratio (Percentage)	37	40
Current Ratio (Number of Times)	4.74 : 1	4.11 : 1
Quick Asset Ratio (Number of Times)	3.82 : 1	2.80 : 1

The following observations are made in this connection

- (a) Even though the revenue was increased by Rs. 24,515,355 during the year under review the Company had recorded a decrease in gross profit margin as compared with the previous year 2014.
- (b) It was revealed that the Company had continuously maintained excess working capital without being invested them in long term investment sources and as such the working capital management of the Company was at very weak level.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) According to the progress report, action plan and other information made available to audit some key targets and their achievements for the year under review are shown below.

Item	Targets	Achievement	Achievement as a percentage of Targets
Coconut Crop (nuts in million)	16.11	12.52	77.72
Average yield per palm (nuts)	72	43	59.72

- (b) The comparison of coconut production, contribution per nut and net sales averages in 06 Planting Area Estates belonging to the Company for the year under review and previous two years are given below.

Estate	Production			Contribution per Nut			Net Sales Average (NSA)		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	Nuts Million	Nuts Million	Nuts Million	Rs.	Rs.	Rs.	Rs. Million	Rs. Million	Rs. Million
Bingiriya									
- Nikaweratiya	2.4	2.3	1.5	13.60	12.41	6.58	30.13	29.41	25.46
Chilaw	2.1	1.7	0.8	14.58	12.11	(0.48)	29.19	28.58	26.26
Divulapitiya	1.6	1.8	1.8	16.07	17.84	23.73	34.69	35.03	36.31
Madampe	1.2	1.9	1.8	2.27	9.98	12.85	31.03	29.46	29.53
Palugaswewa	3.9	3.6	2.5	14.73	12.67	12.53	29.30	27.89	28.16
Puttalam									
- Mangala Eliya	1.4	1.7	1.1	(0.50)	4.86	1.45	26.13	26.12	23.46

(c)

The following observations are made in this connection

- (i) Even though the Puttalam and Mangala Eliya Area Estate had recorded almost the same Net Sales Average (NSA) during the years 2014 and 2015, it was recorded a negative contribution in the year 2015.
- (ii) The coconut crop of Divulapitiya, Madampe and Puttalam-Mangala Eliya Area Estates had been decreased by 1,134,097 nuts in the year 2015.

4.2 Operating Weaknesses

4.2.1 Income from Main Products

The income received from main product items as compared with the previous year are given below.

Product	2015	2014	Variance {favourable/(adverse)}	
	Rs. Million	Rs. Million	Rs. Million	%
Coconut	367	322	45	14
Copra	32	52	(20)	40
Cashew	0.1	5.9	(5.8)	98
Paddy	2.4	2.3	0.1	3
Sale of Coconut Palms	19.7	8.7	11	128
Coconut Husks and Shells	7.0	7.7	0.7	9
Desalting Tank	12.6	-	12.6	100

The following observations are made in this regard.

- (a) The income from copra and cashew had been decreased by Rs. 25.6 million in the year under review as compared with the previous year.
- (b) Revenue of Rs. 2.4 million only had been generated from 432 hectares of paddy fields which consist almost 8 per cent of total land extent available in the Company,
- (c) The cashew production in Thambapanni Estate had been dropped by 10,757 kg in the year 2015, even though the cashew production was increased in other Estates.

4.2.2 Pepper Cultivation Project

It was observed that the revenue from sales of pepper had been deteriorated from Rs.1,219,760 in the year 2014 to Rs. 466,050 in the year 2015 due to significant decrease in pepper cultivation.

4.2.3 Coconut Picking

The following observations are made.

- a) Even though the average fallen nuts per day was 28, it was revealed in audit that the nuts fallen per day was 88. Therefore, it was shown a loss of income from 68 per cent in fallen nuts.
- b) It was revealed in test check carried out on 12 January 2015 that 1,562 nuts were excess in 8 instances and 165 nuts were short in 5 instances. The management had not taken necessary measures to account the coconut crop accurately.

4.3 Items of Contentious Nature

The following observations are made.

- a) A sum of Rs. 3,275,000 had been paid to procuring gents cloths required to distribute among the flood victims and accounted it as a business promotion expenses. This was 24 per cent of other operating expenses and also this transaction was not directly

related to the business promotion. Further, this transaction was not granted Board approval and not supported by approved list of beneficiaries.

- b) Even though the Company's labours had been deployed for planting of 5,000 Gleesieria plants in Madampe Area Estate, a sum of Rs. 10,000 had been paid to a private party for this purpose.
- c) The officer in charge of Thambapanni Area Estate had been interdicted in 1995 and he had reinstated and paid the arrears salary of Rs. 1,036,163 during the year under review as per the Court order due to incorrect decision taken by the management of the Company.

4.4 Identified Losses

The following observations are made.

- a) Company had incurred a loss of Rs. 153,791 from oil mill operations at Palugaswewa and actions had not been taken to convert this process into profitable condition.
- b) A shortage of 176 Kilogram of copra including No.1 and No.2 at Thambapanni Area Estate were revealed in the physical verification and another 125 Kilogram of copra were in refusal condition and actions had not been taken to identify the reasons for the losses.
- c) According to the complaint made to the Fraud Investigation Bureau, a sum of Rs.5,390,658 had been identified as financial fraud in Bingiriya Estate due to selling of 207,333 coconuts fraudulently. Three officers including deputy general manager (Plantation), estate superintendent and an officer in charge had been suspended from their duties. However, steps had not been taken to implement and monitor proper systems and controls to mitigate the risk of selling coconut illegally. Even though it had been highlighted in audit that 14 fields of Chilaw and Thambapanni Area Estates had been recorded a low annual coconut yield per palm ranging from 4 to 28, sufficient attention had not been drawn by the management in this regard as well.
- d) Two dead teak trees were retained in Thambapanni Area Estate since 2013 without using for intended purpose, though it had been instructed to use these trees for the requirements of the official quarters.

4.5 Assets Management

Teak timber trees and some other valuable trees identified in audit had not been included in forestry register and the valuation of consumable biological assets.

4.6 Human Resources Management

The following observations are made.

- (a) The Company had employed workers in holidays without paying overtime. Therefore, the Labour Court has given a judgment against to the Company.
- (b) The Company had employed 03 trainees and an office aid at the basis of daily wages. However, the vacancies for such posts could not be identified in audit.
- (c) The Board had approved to recruit one person as management assistant and pay all-inclusive salary of Rs. 24,017 per month. It was further observed that this recruitment had been done subject to getting credit pass for Sinhala and English languages in G.C.E. Ordinary Level in future.

5. Accountability and Good Governance

5.1 Annual Action Plan

Although an Action Plan had been prepared in line with the Corporate Plan, the Company had failed to identify the responsibilities of managers with goals and targets expected to achieve during the year 2015.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Control	Observation
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(a) Control over Bank Account	- Cheques issued but not presented for payments for more than six months needed to be rectified.
(b) Operations of Copra Centre	- Coconut nuts taken over by the Centre were not counted and mentioned in the delivery note.