Sri Lanka State Plantations Corporation - 2015

The audit of financial statements of the Sri Lanka State Plantations Corporation for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the State Agricultural Corporations Act, No.11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, and transactions tabled in Parliament on 19 June 2017, appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 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 Corporation'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 Corporation'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 financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2 Financial Statements

2.1 Adverse Audit Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka State Plantations Corporation 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 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard 39

In terms of paragraph 46 of the Standard, financial assets shall be brought to account by measuring them at their fair value. However, action had not been taken to account the fair value of fixed deposits valued at Rs.7,431,000 remained as at the end of the year under review.

2.2.2 Accounting Policies

The following observations are made.

(a) According to the Accounting Policies of the Corporation, it had been indicated that the biological assets had been brought to account at the fair value as at the end of the reporting period. However, they had been brought to account as at the end of the year under review at the value of Rs.3,312,160,200 itself which remained in the year 2012, without measuring the fair value.

(b) According to the Accounting Policies, adjustments for depreciation should be made for expenditure incurred for the development of the land. However, adjustments for depreciation had not been made for Rs.4,577,424 capitalized relating to 07 Estates.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Income from tea leaves amounting to Rs.2,114,910 sold on credit basis in the year under review by the Hunnasgiriya Estate had been fully omitted from accounts. As such, the income from sales and debtors value of the year under review had been understated in accounts by the similar amount.

(b) Despite having spent a sum of Rs.2,856,805 for new rubber cultivations during the year under review by the Walahanduwa Estate, it had been indicated under other assets without capitalizing under Rubber cultivation.

(c) Even though the expenditure on depreciation and amortization brought to account relating to the year under review had been Rs.10,763,864, according to the cash flow statement, that value had been adjusted as Rs.11,319,728, thus overstating the cash flow of operating activities by Rs.555,864.

(d) The interest of Rs.1,600,000 payable in the year under review to the Chilaw Plantations Limited had not been paid in the same year and that value had been recorded as cash flows in the cash flow statement under operating activities, thus understating the net cash flow received from operating activities.

(e) The value of Rs.7,915,698 transferred from the value of deferred assets remained at the beginning of the year under review to other cultivations had been recorded as a cash flow received from investment activities.

(f) Even though a sum of Rs.136,034,936 had been paid during the year under review for settling the gratuity liabilities, that value had been indicated as Rs.132,373,652 in the cash flow statement, thus overstating the cash flow of operating activities by Rs.3,661,284.

(g) Even though the interest on fixed deposits relating to the year under review had been Rs.617,920, only a sum of Rs.398,767 had been brought to account as the interest income by the Corporation, thus understating the interest income by Rs.219,153.

(h) The fixed deposits value at Rs.1,020,448 remained as at 31 December of the year under review had been fully omitted from accounts.

(i) Recurrent grants of Rs.204,000,000 received from the Treasury in the year under review had been indicated under capital reserves in the statement of changes in equity instead of recognizing them as other income of the income statement.

(j) In carrying out transactions by Estates with other Estates, those transactions had not been brought to account accurately. As such, unidentified debit balances of Rs.1,746,402 had been shown under current assets.

2.2.4 Unexplained Differences

According to the statement of the financial position as at 31 December 2015, the balances payable to the Janatha Estates Development Board and the State Resources Management Corporation had been Rs.96,041,073 and Rs.28,709,029 respectively. However, according to the final accounts and letters of confirmation of balances of relevant institutions, the said value had been Rs.119,362,386 and Rs.28,471,183 respectively. Even though the amount receivable from the Elkaduwa Plantations Ltd. had been Rs.1,743,955, that balance according to the financial statements of that institution was Rs.1,768,749.

2.2.5 Suspense Accounts

The debit balance of the Suspense Account of Rs.75,789 remained as at 31 December of the year under review had been indicated under current assets without identifying and settling .

2.2.6 Lack of Evidence for Audit

Evidence indicated against the following items of accounts had not been made available to Audit and as such, they could not be satisfactorily vouched or verified in audit.

Item	Value Rs.	Evidence not made available
(a) Lands and buildings	804,946,313	(i) Register of Fixed Assets (ii) Plans of lands
(b) Motor vehicles, machinery, equipment and furniture	279,092,699	Register of Fixed Assets
(c) Biological Assets	3,448,357,991	(i) Annual Assessment Reports on Timber (ii) Timber Survey (census) and Assessment Reports
(d) Trade and other Accounts receivable	86,246,139	Debtors Age Analysis/Confirmation of Balances
(e) Gratuity Liabilities of the Alakolla and Midland Estates	120,608,118	Register of Gratuity payable
(f) Trade Accounts payable	415,140,461	Creditors Age Analysis / Confirmation of Balances