

## **Chilaw Plantations Limited - 2016**

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The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My observations on the operations of the Company during the year under review which I consider should be presented to Parliament in terms of Section 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Board's Responsibility for the Financial Statements**

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The Board of Directors 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.

### **1.3 Auditor's Responsibility**

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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.

### **1.4 Basis for Qualified Opinion**

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- (a) Since useful life of the non-current assets had not been annually reviewed as required by Sections 16 and 51 of Sri Lanka Accounting Standards, fixed assets costing Rs.7,302,940 were further in use despite being fully depreciated. Accordingly action had not been taken to revise the error in the estimation in accordance with Sri Lanka Accounting Standard 08.

- (b) In connection with the lands, 5,733 acres in extent including encroached lands and released lands of which the lease value amounted to Rs.142,502,287, the evidence such as registers of the encroachers, details on the lands, the parties to which the lands had been released and the reasons behind therefor, plans and confirmations relating to the existing lands had not been furnished to Audit.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph of the Basis for Qualified Opinion in this report, the financial statements give a true and fair view of the financial position of the Chilaw Plantation Limited as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Report on Other Legal and Regulatory Requirements**

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As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit as stated above.
- (b) In my opinion:
- I have obtained all the information and explanations that were required for the audit and as far as appeared from my examination, proper accounting records have been kept by the Company except for the effect of the matters stated in the qualified opinion paragraph.
  - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No.07 of 2007.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken to recover the loan amounting to Rs.105 million granted as per the instructions of the Ministry of State Resources and Enterprise Development at an interest rate of 8 per cent in the year 2010 to 05 state institutions which were running at loss and the due interest of Rs.14.7 million.
- (b) In order to export coir dust related products in collaboration with a private company in the year 1992, a project had been implemented from the year 1992 to 2008. Action had not been taken to recover the balance of Rs.13,325,233 remained receivable from that private company due to leaving it from the project in the year 1995.

## **2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

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Without being obtained the recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services in terms of the Public Enterprises Circular No.95 of 14 June 1994 and Section 3 of the Management Services Circular No.39 of 26 May 2009, a sum of Rs.8, 517,042 had been paid as the employees allowances to the officers from the post of Chief Executive Officer to the officers above the level of Junior Manager during the year under review.

## **3 Financial Review**

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### **3.1 Financial Result**

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According to the financial statements presented, the financial results of the Company during the year under review had resulted in a surplus of Rs.69,672,008 as compared with the surplus of Rs.78,681,922 for the preceding year, thus showing a deterioration of Rs.9,009,914 in the financial results during the year under review as compared with the preceding year. The above deterioration was mainly attributed to the decrease of coconut income by Rs.21,702,846 and the decrease of the value of biological assets by Rs.19,380,055 during the year under review as compared with the preceding year.

In analyzing the financial results of the year under review and 04 preceding years, a deficit of Rs.62,071,904 was observed in the year 2014 and the surplus of Rs.77,974,847 in the year 2012 had become Rs.69,672,008 by the year 2016 subject to fluctuations. When readjusting employees' remuneration depreciation for the non-current assets, and the tax paid to the Government, the contribution of Rs.133,165,888 in the year 2014 had increased up to Rs.314,991,589 by the year 2016.

## **4 Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) According to the budget estimates of the Palugaswewa Estate in the year under review, the extent of land area estimated for weeding stood at 1,456 hectares, but weeding of only 1004 hectares of land only had been done.
- (b) The number of tall coconut trees of the 06 zones of the Company ranged between at least percentage from 01 per cent to 9 per cent of the number of yielding trees. Due to increase in the percentage of number of fallen nuts over a number of years, it had been decided to yield coconut harvest monthly from the beginning of the year under review instead of plucking coconuts quarterly per year as a remedial measure. Nevertheless, the number of fallen coconuts was 5,180,894 during the year under review and it represented 31 per cent of the total yield. Accordingly, it remained questionable in audit whether the above decision had been implemented.

- (c) Although the standard number of coconut trees required to be stood in a one hectare of land is 158 trees, according to the number of coconut trees cultivated in the 06 estates that figure had ranged from 132 trees to 152 trees in the other estates except for the Divulapitiya Estate.
- (d) According to the policy of the Company, the immature coconut cultivations are recognized as the matured cultivation after a period of 06 years. Nevertheless, 110,299 trees or 27 per cent of the 414,225 coconut trees recognized as matured trees as at 31 December 2016 had not in a position to bear fruits.
- (e) Since the activities such as application of fertilizer, weeding and watering for the intercrops had not been adequately carried out as planned, out of 7,390 pepper plants and 1,175 Rambutan plants grown in the Divulapitiya Estate, respectively 40 per cent and 50 per cent plants had been damaged by the end of the year under review.
- (f) Palugaswewa Estate  
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- i. Although 25,015 coconut plants had been cultivated in 10 fields of the Palugaswewa Estate as intercropping from the year 2009 up to the year under review by spending Rs.70,312,214, about 4,353 plans had been destroyed by the end of the year under review.
- ii Due to abandoning 20 harvesting sessions of coconuts including 8 fields in which harvesting was not carried out and 4 fields, the harvesting in which was carried out only one session during the months of November and December of the year under review, the number of fallen coconuts had increased up to 46 per cent.
- (g) Cashew Cultivation  
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- i The cashew income had decreased by Rs.6,119,667 or 31 per cent and the expenditure for the cashew cultivation had increased by Rs.4,899,099 or 29 per cent during the year under review as compared with the year 2015. Accordingly, a net loss of Rs.924,385 was shown from the cashew cultivation during the year under review.
- ii Even though cashew cultivation should be recognized as a main crop, contrary to that, a sum of Rs.87,056,399 had been spent for the cultivation of cashew as intercrop in four coconut estates. According to the policy adopted by the Company to identify the cashew plants as matured trees, the number of cashew trees which should bear fruits as at 31 December of the year under review was 37,914, due to growing as an intercrop, only 17,711 trees had become yielding position.
- iii According to the standard of the Sri Lanka Cashew Corporation, the average annual yield of a cashew tree amounted to 10 kilograms of dry cashew. Accordingly, the yield to be harvested from 20,203 fruit bearing trees of all the estates of the Company is 202,030 kilograms of nuts, whereas the yield harvested during the year under review amounted to 90,180 kilograms of cashew only.

(h) **Cashew Processing Project**  
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According to the standards found in the cashew industry, although one kilogram of finished cashew should be manufactured out of four kilograms of raw cashew, 4.6 kilogram of raw cashew had been used for the production of one kilogram of finished cashew in the year 2014 and in had increased up to 5.69 kilogram by the year 2016. Accordingly, due to increase in the cost of production of one kilogram of finished cashew, a profit of Rs.14 only had been received by the Corporation during the year 2016.

**4.2 Management Activities**  
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The following observations are made.

- (a) Although the Company had expected to implement 11 small water tanks deepening and widening projects in 5 estates during the year under review and earn an income of Rs.72,245,450 by selling sand and soil obtained therefrom, only an income of Rs.23,647,920 had been earned due to abandoning those projects half way.
- (b) Out of 7 cases filed by the Corporation against external parties, since legal matters attributed to file 03 cases for committing coconuts and copra frauds could not be established by evidence, Company had failed to recover the loss relating to 3043 coconuts and 154 kilograms of copra.

**4.3 Operating Review**  
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(a) **Livestock Project**  
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The following observations are made.

- i According to the existing standards, more than 4 liters of milk should be obtained from a cow per day. Nevertheless, due to failure in giving foods daily in proper standards to the animals in the farm of the Palugaswewa Estate and breeding of animals among the same generation since a period of 20 years, the volume of milk harvesting had remained at a minimum level of 1.5 liters.
- ii Although the veterinary officer had recommended to cull 31 cattle from the shed during the year under review, management of the Company had not taken action to remove those animals.

(b) **Mitta Laboratory- Palugaswewa Estate**  
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The following observations are made.

- i In the production of Mitta predators, there should be about 5000 Mitta predators in a Mitta packet when it is spent a period of 42 days. Nevertheless, due to the weaknesses found in the production process and unsuitability of the temperature of the laboratory, Mitta had not been produced in the due amount.

- ii According to the guidance of the Coconut Research Institute, Mitta predators should be applied at one bag for every 4 Mitta affected tree during a period of every 2-3 month within 02 years. Nevertheless, due to the failure in producing Mitta in proper standards and failure in applying Mitta in the field in due dates, the quantity of Mitta affected coconuts in the estate had gone up.

**(c) Oil Extracting Project**  
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The following observations are made.

- i. For the installation of an oil extraction system, an agreement had been entered into to pay Rs.4,850,126 to a private company in the year 2010. Although a period of 05 years had elapsed from the inauguration of the project, as the machines had not properly functioned, only 0.49 kilogram of oil had been extracted from 01 kilogram of copra though 0.06 kilogram of oil should be extracted from 01 kilogram of copra according to the data of the Coconut Development Board. As such, the profit which could have been gained by the production of oil had been deprived.
- ii Without being taken action to recover the loss sustained by the Company for not properly installing the oil extracting machine from the relevant company or cancel the agreement, a sum of Rs.2,425,063 payable to the private company had been stated as payables from the year 2014.
- iii The increase in the number of coconuts required for the production of one kilogram of copra from 7 nuts in the year 2014 up to 8.6 nuts in the year 2016 had contributed to increase in the direct production cost of a coconut oil liter from Rs.274 to Rs.350.

**(d) Kapruwana Hybride Coconut Project- Keeniyama Estate**  
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Although it had been planned to cultivate 9,225 coconut plants in a land of 58 hectares by the project initiated by the Plantation Company in collaboration with the Coconut Research Institute for the production of Hybride coconuts within a period of 30 years from the year 2013, only 8,363 plants had been cultivated by spending Rs.3,347,323. Since the cultivation had not been properly maintained by carrying out replanting for destroyed plants, only 5,134 plants had remained in the field by 31 December of the year under review.

**4.4 Transactions of Contentious Nature**  
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By calling for quotations for desilting two small water bodies in 2A and 2B fields of Sembukuttiya Division of the Madampe Regional Estate, an agreement had been entered into with an external person to remove 5,230 cubic units of earth at Rs.600 each. Although a sum of Rs.3,318,000 remained receivable to the Company relating to the removal of sandy soil, a sum of Rs.1,199,900 including the refundable deposit only had been received by the Company.

#### **4.5 Idle and Underutilized Assets**

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With the expectation of earning an income of Rs.47,582,892 within 6 years from the year 2010, a coir twisting machine had been installed in the Palugaswewa Estate by spending in the month December 2010. Rs.469,600. Although a period of 6 years had elapsed from the installation of the relevant machine by the end of the year under review, it had remained idle during the above period.

#### **4.6 Staff Administration**

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The approved cadre and the actual cadre of the Company as at 31 December of the year under review stood at 116 and 103. Accordingly, the number of vacancies in the cadre amounted to 24 and the number of excess cadre amounted to 11. The following observations are made.

- (a) An officer who had not satisfied the minimum qualifications as per the scheme of recruitment had been recruited as an acting Assistant Estate Superintendent with effect from 06 September 2016 and payment totalling Rs.506,311 had been paid. According to a case filed by the other Estate Superintendents against the above recruitment, an interim injunction had been imposed. Accordingly, he had not reported for the service from 25 November 2016, whereas action had not been taken to legally dismiss him from the service.
- (b) Though there were 11 unapproved posts even after restricting the staff as per the Letter No.DMS/G3/S3 dated 04 May 2012 issued by the Director General of the Department of Management Services, the Company had not taken action to obtain the approval of the Department of Management Services to absorb those posts to the approved cadre or maintain them as personal to the holder basis of the post.

### **5. Accountability and Good Governance**

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#### **5.1 Establishment and Ownership of the Company**

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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 Public Corporations or 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.

### **6. Systems and Controls**

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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) Budgetary Control	Although targets had been set by the budget, the process relating to the achievement of those targets remained at poor position.
(b) Debtors and Creditors Control	Action had not been taken either to settle or recover the long term debt balances.
(c) Staff Administration	The majority of the present employees are over 50 years of age and due to not joining youth labourers to the service, there is a risk relating to the recruitment of new labourers in future.
(d) Plantation Management	Due to the matters such as failure in implementing coconut replanting plans, failure in applying fertilizer on scientific basis, not adopting proper maintenance and control methods and lack of adequate water supply system, plants had been destroyed and harvest of coconuts had decreased.