

**1.1 Qualified Opinion**

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The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations which I consider should be report 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 Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified based 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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

#### **1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial statements)**

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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 skepticism 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Comments on Financial Statements

### 1.5.1 Non- compliance with Sri Lanka Accounting Standards

<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Ninety four vehicles which were fully depreciated and currently being used cost at Rs. 72,942,879 had not been re-valued and taken into accounts in terms of the Paragraph 51 of the Standard No.16 .	Even though all the motor vehicles belonging to the Company which were fully depreciated by now and currently being used has been sent to the Department of Valuation to re-assess the value, of the company's current depreciation and all currently used motors, the Chilaw Plantation Company has not received such reports.	Actions should be taken to account for the assets as per the Standard.

### 1.5.2 Accounting Deficiencies

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As a result of expenditure of Rs. 1,111,531 relating to prior years which were incorrectly included in the opening balance of the working capital for the year under review recording as an expense of the year under review, profit for the year under review had been understated by that amount.	This amount of Rs. 1,111,531 has been shown under the work in progress in the balance sheet of the Palugaswewa Estate as at 31 December 2017 and indicated as such in the final accounts of the Estates .	Adjustments should be made to prior year's profits.

### 1.5.3 Lack of Evidence for Audit

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<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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the company had failed to furnish the detailed record related to the assets constructed by Plantation Human Development Trust Fund valued at Rs. 6,479,676 for the development and improvement of estate infrastructure from the year 1994 to 2010 to audit.	The funds received from the PHDT Fund to the Company has been credited to the main account and debited to the asset accounts in the relevant years with the contribution of the Company and the buildings and water supply so constructed were shown separately and because it has been built with the contribution of the Institute and the contribution of the PHDT Fund, the value such as Rs. 10,824,468 received in principal was not equal to the value of assets constructed. Accordingly, the assets which were shown by the auditors amounted to Rs. 6,479,676.00 also have been taken into accounts during the period of 1994 -2010.	Since the money received from the PHDT Fund should be credited to the income of the year from the respective reserves equal to the depreciation expense related to the assets constructed, the detailed documents should be maintained as the assets built by the funds could be separately identified.

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

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The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Management Services Circular No. 30 of 26 may 2009	Although the recommendation of the National Salaries and Cadre Commission and approval of the Department of Management Services should be obtained when determining the	As per a circular issued by the General Manager of the Janatha Estate Development Board, it has been decided to pay labour allowances to the executive grade officers of all the Regional Offices. Accordingly, this allowance has been continuously paid to the	The Approval should be obtained from the Salaries and Cadre Commission and the Department of Management Services before payment of allowances made.

allowances, without executive officers. so, a sum of Rs. 7,740,249 had been paid in the year under review as “Labour Allowance” for 28 officers in the JM and above salary categories.

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| (b) Public Enterprises Circular No. 01/2015 of 25 May 2015 | In the event that the monthly fuel allowance is not sufficient to carry out the duties, the Chairman should obtain the approval of the Secretary to the Line Ministry for additional fuel purchased, the Chairman of the Company had not obtained the approval for 3,082 liters of fuel which exceeded the approved fuel limit amounted to Rs. 413,374. | The recommendations of the Board of Directors has been obtained and sent to the Ministry for approval. | The approval of the Secretary to the Ministry should be obtained for additional fuel obtained by the Chairman. |
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## 1.7 Accounts Receivable

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Audit Observations	Comments of the Management	Recommendation
(a) Proper steps had not been taken to recover the loan amounted to 105,000,000 granted to the Elkaduwa Plantation Company, Janatha Estate Development Board, State Plantation Corporation, Sri Lanka Rubber Products and Export Corporation and Ministry of State	Heads of institutions were brought to the Ministry by the Secretary to the Ministry of Plantation Industries in the year 2018 and requested to take action to settle the loan. As a result, the Janatha Estate Development Board has agreed to provide a suitable building premises to maintain the Colombo office of the Chilaw Plantation Company as a step to settle of its Rs. 40 million loan and activities on this is being done these days.	Actions should be taken to recover the relevant loans and interest promptly.

Resources and Enterprise Development with the 8 per cent interest amounted to Rs. 53,157,808 to be paid within two years.

## 2. Financial Review

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### 2.1 Financial Results

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The operational result of the year under review was a loss of Rs. 35,178,696 and as a result, the profit against for the preceding year was Rs. 126,414,733 the financial result of the year under review had deteriorated by a sum of Rs. 161,593,429 . This decline in coconut sales revenue by Rs. 200,668,747 had mainly attributed to this decrease.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observations	Comments of the Management	Recommendation
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<p>(a) As per the agreement even though 0.6 kilograms of oil should be produced in 1 kilogram of copra by the oil refinery system installed in 2010 valued at Rs. 6,062,657 established in the year 2010, the amount that system could be produce was only 0.5 kilograms of oil. Accordingly, the Company has not taken any steps to repair the relevant system or to cancel the agreement and install another system.</p>	<p>Attention has been drawn to take legal actions with regard to this and cancellation of amount payable.</p>	<p>According to the agreement, necessary measures should be taken to obtain the desired output from the oil refinery system.</p>

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| <p>(b) The post of Assistant General Manager (Plantation) should cover all the Estates of the Company As per the Scheme of Recruitment of the Company, due to the Management Decision to confine the officer who was appointed to the post on 18 November 2014 to 02 estates and only one project the service of that position had been underutilized.</p> | <p>According to a decision taken at the Board Meetings held on 08 December 2015 and 11 February 2016, the Assistant General Manager , Plantation has been assigned the responsibility of the management of the Palugaswewa and Thambapanni estates and the cashew project by the letter dated 11 February 2016 of the Executive Director.</p> | <p>All the duties assigned to the post of Assistant General Manager (Plantation) according to the Scheme of Recruitment in a manner of covering all estates.</p> |
| <p>(c) Even though a generator at a cost of Rs. 1,386,929 had been purchased on 19 March 2018 to obtain water for the seed coconut garden maintained by the Company in the Estate Section of the Company, due to non-completion of pipeline work even by 31 August 2019 the machine was not in had not been used.</p>                                      | <p>This seed coconut garden is totally operated on technical advices by the Coconut Research Institute. Although a generator has been obtained for irrigation, the pipe laying had to be done by the Coconut Research Institute. However, the pipeline work has been completed by now.</p>  | <p>Goods should be purchased and used in the order of carrying out of work.</p>  |

### 3.3. Operational Inefficiencies

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	<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	Due to shortcomings in the supervision and maintenance of 145,549 immature coconut palms planted in the plantations of the Company from the year 2010 to 2017, 48,579 trees or 34 per cent had	The destruction of crops is not only due to shortages of water and occurs under Pests damages, climate changes, environmental conditions and soil conditions also.	Actions should be taken to ensure that all the factors necessary for the growth of the cultivation from the commencement to proper maturity and maintain.

destroyed by the end of the year under review.

- (b) Direct applying of fertilizer has been done on the Bingiriya and Chilaw Estates and as per the recommendation of the Coconut Research Institute, 800 grams of urea should be applied to a mature coconut palm, due to the applying of 800 - 1200 grams per tree by the Estate Management 51,052 kilograms of urea had been used more than the standard.
- Since the estimation of fertilizer is being carried out in the past year on plantation leaf analysis based on the Differential Fertilizer Recommendations of the Coconut Research Institute, there are differences in the standard values.
- Arrangements should be made to increase the yield by applying fertilizer to every tree uniformly as per the recommendations of the Coconut Research Institute.
- (c) Although 1 kilogram of dolomite should be applied to every mature coconut tree using chemical fertilizer as per the recommendations of the Coconut Research Institute, as a result of the Company had applied 2kg each to 119,788 trees, a number of 116,280 kilograms of dolomite had been used more than the standard.
- Two kilograms of dolomite have been applied for some plantations, based on the recommended Differential Fertilizer Recommendations prescribed after analysis of soil and coconut leaves by the Coconut Research Institute. Change in the reduction of 8,535 kg of fertilizer for planting can occur on such factors as the type of plants that have died and when the fertilizer is applied and existence of growing seedlings.
- Action should be taken to apply dolomite fertilizer to the recommended levels of the Research Institute.
- (d) Even though the annual average yield of a coconut tree should be about 72 coconuts according to the standards of the Coconut Research Institute, as the Company did not take steps to increase the yield, that amount were at a lower range of 11-36 in the 06 Estates
- Annual average yield of a coconut palm is not 72 nuts and the decline of the coconut yield of the Company in the year 2018 has impacted the annual average coconut yield of a tree.
- The Company should make arrangements to maintain coconut plantations so that it receives at least 72 nuts from a tree.



administered.

- (e) A number of 4,131 cashew plants planted in St. John's B and Marichchikattuwa Estate in the year 2013 and even though a sum of Rs. 7,058,205 had been spent by the end of the year under review for that, due to lack of maintenance and weaknesses in supervision from the total cultivation, a number of 3,685 trees (89 per cent) were destroyed.
- The crop was damaged due to established cashew plantations are also inundated with heavy rainfall and drought conditions caused by the location of the Dry Zone.
- Before starting cashew cultivation a study should be carried out on soil and environmental factors and crop monitoring should be carried out effectively to protect the cultivated plants..
- (f) Although the Company and the Coconut Research Institute have jointly commenced coconut cultivation in 2012, with 8363 plants in 58 hectares belonging to the Bingiriya estate, due to weaknesses in the supervision of cultivation, about 2691 plants or 32 per cent were destroyed by the end of the year.
- Due to low rainfall, shortage of manpower for daily maintenance of large plantation, damages to plants by termites, porcupines and beetles has affected to decrease the number of coconut seedlings.
- Cultivation should be monitored and maintained according to the instructions receive from the Coconut Research Institute.

### 3.4 Transactions in Contentious Nature

Audit Observations	Comments of the Management	Recommendation
(a) Even though it had been entered in to an agreement on 11 January of the year under review for the reconstruction of	Even though it had been entered in to an agreement valid for 09 months in relation to cash payments to Chilaw Plantation Company amounted to 63 million under Registration Agreement No. 1359 on the renovation of	According to the agreement entered in to, legal actions should be taken to recover the money for the sediment removed or to stop the

Marawila II Tank at Marawila II tank on 11/01/2018 by removal of sediment.  
 Bingiriya Estate the contractor, the mining was not  
 belonging to the commenced for nearly 05 months by  
 the Company and to remove the contractor and the Performance  
 35,000 cubes of Guarantees on agreement also had not  
 sediment pull out and been paid.  
 to pay Rs. 1800 Since the contractor had agreed to  
 each to the Company for pay the Company more than  
 removal , and although expected estimate, it has been re-  
 the contractor had signed by both parties on 25/07/2018  
 removed the sediment, including a grace period of 28 days to  
 the Company had not be paid the Performance Guarantee of  
 taken legal action to Rs. 1,000,000 in 04 installments.  
 recover the money As the validity period of that  
 relevant to that or to agreement has to be expired on  
 stop the removal of 23/08/2018, only one clay cube was  
 sediment. removed from the tank by paying a  
 sum of Rs. 149,400 to the office of  
 Bingiriya Estate for 83 soil cubes on  
 28/07/2018 . However, a case has  
 been filed in the Kuliapitiya District  
 Court under Case No. 1023 / L as  
 this tank situated at midst of  
 Ruwaneliya paddy field leased under  
 the annual seasoning system and  
 partaken by Chilaw Plantations and  
 belonging to Chilaw Plantations and  
 for obtaining a prohibition order to  
 prevent unauthorized mining of the  
 that.

- (b) About 40 acres of land in Mawathagama Estate belonging to the Chilaw Estate has been excavating by unauthorized persons since 2012 and the Company had not taken actions to stop the unauthorized mining . Land surveying will be carried out within the next 14 days by an authorized surveyor selected by the Company on 23/08/2019 . Further, it is further informed that once the boundary has been cleared, procurement will be carried out to lease the granite accordingly, preparing a report with regard to the granite containing the technical data. Lands owned by the Company should be surveyed and the fence boundaries should be maintained accordingly and Estate supervision should be maintained so that revealing of the unauthorised acquisitions and activities.
- (c) Out of the 5,733 hectares of land at the time of establishment of the Company valued at Rs. 142,502,287 in the A number of 18.21 hectares have been avoided due to the lack of updating of the Register for Land. A play ground has been built in the year 2001 in an extent of land area of Lands which were not owned by the Company should be surveyed and demarcated accordingly and legal actions should

year 1992 , although 27.92 hectares and at present, and a be taken against 187.44 hectares had the government has intervened to unauthorized 187.44 hectares had been acquired by build a housing scheme thereon at acquisitions. external parties as at 31 present. December of the year Tenant farmers were owned for the under review, as the lands after given about an extent of company had not owned 11.34 hectares on lease in the year 1978. the relevant land plans the management had failed to take legal Even though it was noted as this action against Estate is 149.49 hectares extent unauthorized acquisition according to the lease agreement, of property by Estimates were shown as 23.47 submitting the hectares. Although the land has been ownership clearly. the given to Voice of America it was impossible to find the written evidence of the extent and the time period.

Even though 81.25 hectares of land had been used for refugee settlement by the existed government in the year 1984 , there is no written evidence regarding that.

The extent of the land has been lost during the period whereas the Siththampalam Watta was under the Land Reform Commission. There is no written evidence for this.

### 3.5 Procurement Management

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#### Audit Observations

Four construction works which were included in the Procurement Plan valued at Rs. 11,731,343 had not been carried out and a sum of Rs. 21,477,213 had been incurred for the purchase of a Lorry, Timber Valuation and Purchase of Goods that had not

#### Comments of the Management

Constructions that were expected to be completed during the year were not carried out due to lower coconut prices and lower yields. When conducting Procurement activities amounted to Rs. 21,477,313 during the year under review though the many has been made subjected to the provision in the Estimate , have not been included in the Procurement Plan.

#### Recommendation

The procurement of work and goods included in the approved Procurement Plan should be made and the Procurement Plan should be updated and complied with before proceeding with unplanned tasks.

been included in the Plan. Accordingly, the Company had not complied with the Procurement Plan.

### 3.6 Human Resources Management

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#### **Audit Observations**

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Even though the Company had called applications for the posts of Audit Assistant and Management Assistant a by a popular news paper advertisement on 25 July 2017 at a cost of Rs. 173,000 those recruitments had not been made by the end of the year under review.

#### **Comments of the Management**

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Since the relevant appointments could not be made as per the newspaper advertisement dated 25 June 2017, six employees who were appointed to the plantation staff in the year 2018 have been assigned to the Head office to cover that shortcoming.

#### **Recommendation**

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Action should be taken to recruit qualified candidates for relevant posts.