

Chilaw Plantations Limited - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw Plantations Limited (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported 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 2019, 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

My opinion is qualified 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

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 Scope of Audit (Auditor's Responsibility on 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 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 board 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 Standard

The following observations are made.

Non-compliance -----	Comments of the Management -----	Recommendation -----
<p>Since the useful life of non-current assets has not been reviewed annually in terms of paragraph 51 of Sri Lanka Accounting Standards No. 16, 08 vehicles, 18 motorcycles and agricultural vehicles, at the cost of Rs. 130.3 million and which were fully depreciated by 2018 were still in running condition. Nevertheless, action had not been taken to revise that estimated error in terms of Sri Lanka Accounting Standard No.08 and to indicate the correct carrying value in the financial statements.</p>	<p>Although revaluation of motor vehicles had been assigned to the Valuation Department in the year 2018, the Chilaw Plantations Limited had not received the reports even by 31.12.2019. However, attention has been paid to inquire in this regard from the institution within this year and to make the relevant revaluation conducted by another qualified institution if there is any delay in providing valuation reports.</p>	<p>Action should be taken in compliance with the provisions of the Sri Lanka Accounting Standards.</p>

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) Necessary adjustments had not been made to remove from accounts an extent of 184.15 hectares of land valued at Rs.4.6</p>	<p>These lands were transferred to the Janawasama in the year 1976. In 1992, the lands,</p>	<p>Action should be taken to remove the value of the released</p>

million and lost by the Company due to unlawful acquisition, reservation for public utilities and reservation for the requirements of the Government by the end of the year under review, out of the 5733 hectares of land granted to the Company by the Janatha Estate Development Board in the year 1992.

managed under Janawasama lands from the financial statements. were transferred to the Chilaw Plantations Limited under a lease agreement. Some lands had not been physically transferred to the Chilaw Plantations Limited. The land extent released prior to 1992 can be indicated as 141.66 hectares in considering the present situation of the extent of 185.15 hectares.

(b) Although a plantation comprised of 3,850 cashew nut tress started in an extent of 18.75 hectares in Mangala Eliya Estate, Puttalam in the years 2013 and 2014 at a cost of Rs. 4.45 million by the Company even without doing a site study had been fully destroyed by the year 2015, adjustments related to that had not been made in accounts and this expenditure had been capitalized in the financial statements of the year under review.

A cost amounting to Rs.3,740,610 incurred from the years 2013 to 2015 for the cashew nut plantation in extent of 10.75 hectares started in the year 2013 in 2 projects in extent of 18.75 hectares. The total cost incurred for this project in the year 2013 was Rs. 2,975,720. It is expected to refer the matter to the Board of Directors and to take a final decision regarding the failed cultivations.

Action should be taken to remove assets that do not exist physically from the accounts.

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

The following observations are made.

Non- compliance	Comments of the Management	Recommendation
(a) There was a shortage of 259 kg of finished cashew nuts worth Rs. 551,581 between the documented stock balance and the physical stock balances of the two Sales Centres in Chilaw and Palugaswewa and cashew nut processing Centre in Palugaswewa. There was a shortage of 200 bottles of coconut oil worth Rs. 76,860 in Palugaswewa and Head Office in by 30 July 2019. Any action had not been taken against the officers responsible for these shortages even by 31 July 2020.	It is hereby informed that preliminary investigations are being conducted in relation to matters mentioned in the said audit query and the action that we hope to take in relation to the relevant incident will be informed to you after the finalization of the said activities.	Action should be taken against the officials responsible for the shortages in the stocks and to recover the relevant losses.

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| (b) | A vehicle had been repaired by incurring a sum of Rs.488,604 without obtaining the approval of the Secretary of the Line Ministry in terms of Guideline 2.14.1 of the National Procurement Agency Circular No.08 of 25 January 2006. | This was done as an urgent repair with the approval of the Procurement Committee of the National Procurement Agency. | Action should be taken in accordance with provisions of the Government Procurement Guidelines. |
| (c) | In contrary to the provisions of paragraph 02 of the Public Enterprises Circular No. 95 of 14 June 1994, the Company has provided budgeted allowances amounting to Rs. 1.72 million for 28 Senior Level Managers and Staff Officers, drivers' allowances amounting to Rs. 2.12 million and transport allowances amounting to Rs.438,934 for nine middle level and low level Managers had been paid during the year under review. | The Board of Directors has approved a transport allowance but not a drivers' allowance and it had been granted after doing a proper study. It is expected to motivate the employees by providing a transport allowance and it will help them to achieve the goals of the Company. | Action should be taken in accordance with the provisions of the Circular. |
| (d) | A telephone allowance of Rs.102,167 had been paid to ten officers who were not eligible for getting the telephone allowance as per paragraph 02 of the Public Enterprises Circular No. 02/2015 of 25 May 2015. | The Company always strives to get the maximum service using the least number of employees. Accordingly, it is easier to get duties performed by using a minimum number of employees and by granting such an allowance for them in the performance of duties. | Action should be taken in accordance with provisions of the Circular. |
| (e) | The Chairman had obtained fuel worth Rs. 352,690 by exceeding the approved limit of fuel without obtaining the approval of the Secretary of the Line Ministry according to paragraph 3.3.2.1 of the Public Enterprises Circular No. 01/2015 of 25 May 2015. | Approval has been obtained for fuel consumed by giving explanations to the Board of Directors. Although the matter of using fuel exceeding the limit by the Chairman had been submitted for the approval of the Secretary of the Ministry, it has not yet been approved due to the changes occurred in the Ministry. | Action should be taken in accordance with provisions of the Circular. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review according to the financial statements presented amounted to a surplus of Rs. 47,396,415 and the corresponding deficit in the preceding year amounted to Rs. 32,301,910. Therefore, an improvement of Rs.79,698,325 was observed in the financial result during the year under review when compared with the previous year. The major reason for the improvement in the financial result was the increase in the profit by Rs. 63,670,269 as compared with the previous year, by selling coconut and cashew nut plantations which were major crops cultivated in the year under review.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The company had paid Rs.707,991 for newspaper advertisements, food, gifts and other expenses related to a festival held at Palugaswewa Estate on 05 July in the year under review and a sum of Rs.462,000 had been paid for 616 estate workers, who get day's pay and participated in the event.	The approval of the Board of Directors has been obtained for the publication of newspaper advertisements and in relation to the relevant fees and action has been taken to reimburse the money from the estate divisions. Action had been taken to identify the amount that you have stated as the amount to be spent by the Head Office and to reimburse the amount to Palugaswewa estate.	In spending money, expenditure should be incurred by considering whether the relevant expenditure is relevant to the accomplishment of the objectives of the Company.
(b) Although there is no legal authority for the Company to lend and for the Corporations, Companies and Ministries mentioned herein to borrow, action had not been taken even by the end of the year under review to recover a total of Rs. 164.5 million comprised of a loan of Rs.105 million lent by the Company to the Janatha Estate Development Board, Elkaduwa Plantations Limited, Sri Lanka State Plantations Corporation, Ministry of State Resources and Enterprise	Chilaw Plantations Limited has provided loans amounting to Rs. 105 million to the state institutions in the year 2010 as per instructions of the Secretary of the Ministry to meet their short-term working capital requirements. However, any of those institutions have not yet paid the loan or interest as per the agreement. Although letters had been constantly referred to each institution to recover	Action should be taken expeditiously to recover these loan balances.

Development and Sri Lanka Rubber Manufacturing and Export Corporation Ltd in the year 2010 and the interest related to the amount as at the end of the year under review. the money, money had not yet been recovered.

3.2 Human Resource Management

The following observations are made.

Audit Observation

By the end of the year under review, there were vacancies for 35 officers in 17 posts in senior and tertiary levels. Action had not been taken to fill these vacancies or to review the number of posts and cadre based on the current requirement of employees. Although officers had been recruited for the posts of Chief Internal Auditor, Assistant Manager and Assistant Accountant before a period of 10 years, action had not been taken to get the approval of the Department of Management Services for these posts even by the year under review and two drivers and two workers had been recruited by exceeding the approved cadre.

Comments of the Management

The Management had not given a definite answer.

Recommendation

The Management should be responsible to approve the relevant posts in accordance with the current requirement of the employees of the Company and not to make any recruitment by exceeding the approved cadre under any circumstances.