Kurunegala Plantations Limited - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Plantations Limited ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 Sub-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 (Auditor's Responsibility for 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, 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 the Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

The following observation is made.

Non-compliance	Comments of the Management	Recommendation
In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the useful life of non-current assets had not been reviewed annually. As such, 32 motor vehicles, 106 agricultural vehicles and 27 motor cycles costing Rs.138.51 million were still in running condition. However, action had not been taken to revise the said estimated error and to indicate the correct carrying amount in financial statements in terms of Sri Lanka Accounting Standard 08.	After being pointed out by audit, necessary action was taken to revalue all motor vehicles. Moreover, the said activities could not be completed in the year 2019 and further, the said activities could not be finalized even up to now due to the situation that existed in the early part of the year 2020. However, arrangements have been made to finalize this task in the year 2020.	Action should be taken in terms of provisions in Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The approval of the Ministry of Plantation Industry or the Treasury had not been received for the decision taken by Kurunegala Plantations Limited to discontinue payment of lease	The value of lease installment payable has been computed based on net assets as at 31/12/1994 with effect from 18/06/1996. This computation has been carried out by the	Contingent liabilities should be disclosed in financial statements and approval of the line Ministry or the Treasury should be obtained for the relevant decision.

	relating to lands of 1,750.88 hectares in extent from the year 2009, released for various objectives of the Government out of lands leased out to the Company for cultivation purposes. Moreover, from then onwards, the lease rental of Rs.214.21 million relating to the said extent of land up to the end of the year under review, had not been disclosed in the financial statements.	Urgent Issues Task Force of the Institute of Chartered Accountants of Sri Lanka. Release or deviation from control or actual non-receipt of lands result in the decrease in net assets. Payment of lease rentals for unused lease assets not in the custody of the Kurunegala Plantations, is completely unnecessary. Accordingly, action is taken by the Kurunegala Plantations to pay the lease installments based on revision after adjusting these differences. Nevertheless, requests have been made for settlement of this issue with the participation of the Ministry of Plantation Industry and the Treasury.	
(b)	Out of lands granted by the Janatha Estates Development Board in the year 1992, lands of 551 hectares in extent valued at Rs.15.51 million had been released by the end of the year under review for the requirements of the Government and for various public requirements. However, disclosures had not been made in the financial statements relating to the said released lands.	These lands have not been surveyed and handed over to us. Out of 87 lots owned by the Company, survey of 78 lots had been carried out by the Plantation Industries Management Supervision Division. However, only a part of the plans thereof have been received by us. Moreover, the Survey Department has provided more plans to the Ministry of Plantation Industries and even though we have requested for those plans, they have not been received up to now. Plans have not been provided at the establishment of the Company.	Disclosures should be made in the financial statements relating to lands released.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Public Enterprises Circular No.95 of 14 June 1994 Paragraph 02	An allowance named "Adjustment Allowance" totalling Rs.1.2 million at a monthly rate of Rs.1,000 per person had been paid for 10 managers of medium level, of the Company without the Treasury approval.	An allowance of Rs.10,000 has been paid for the MM salary step on a decision of the Board of Directors for minimizing the salary anomaly.	Approval of the Treasury should be obtained for payment of allowances.
(b) Management Services Circular No.39 of 29 May 2009 Paragraph 01	Employees' salaries of Rs.13.24 million payable to 36 senior level and staff officers of the Company for deploying estate labourers in service, had been obtained in the year under review as well by the relevant officers, as employees' allowances convertible to cash, without deploying labourers as such and without approval of the Department of Management Services or the General Treasury.	This entitlement is paid by cash from the year 2010 on a decision taken by the Board of Directors, considering the current dearth of labourers and the additional expenditure incurred for Employees' Trust Fund, Employees' Provident Fund, gratuity allowance, incentive, medical aid allowance, holiday pay etc. in providing employees, so as to be financially beneficial to the Institute.	Action should be taken in terms of Circular provisions.
(c) Public Enterprises Circular No.01/2015 of 25 May 2015 Paragraph 02	Official vehicle facilities had been provided to five officers deployed in service at the Head Office, who are not entitled to official	It is mentioned in this connection under Section 1.1.6 of Public Administration Circular No.22/99 under the theme, "Official Transport Facilities	Action should be taken in terms of Circular provisions.

vehicles and a sum of Rs.1.32 million had been incurred in the year under review as fuel expenses for those vehicles.	to **Public** Officers/ Judicial Officers/ Officers in **Public** Corporation and Statutory Boards".

2. Financial Review

2.1 Financial Results

According to financial statements presented, the financial result of the Company for the year under review was a surplus of Rs.120,170,906 as compared with the corresponding surplus of Rs.221,411,803 of the preceding year, thus resulting in a decline of Rs.101,240,897 in the financial result of the year under review as compared with the preceding year. The decrease in the sales income by Rs.114,084,425 and the increase in the sales cost by Rs.30,056,848 had mainly attributed to this decline.

2.2 Trend Analysis of Major Income and Expenditure Items

The following observations are made.

(a) The total income from sale of coconut had dropped by 24 per cent due to the decrease in production of coconut by 32 per cent and the decrease in the average selling price of a coconut by 43 per cent in the year under review as compared with the year 2018. Nevertheless, it had increased by 5 per cent as the Company failed to control the coconut production cost. Moreover, even though the income from sale of copra had increased by 141 per cent as compared with the preceding year, the income from sale of coconut seedlings had decreased by 51 per cent.

(b) The rubber latex production of the Company had increased by 7 per cent in the year under review as compared with the preceding year. The production of sheet rubber had decreased by 76 per cent due to limiting the production of sheet rubber giving priority to sale of latex by the Company while the income from sale of rubber latex had increased by 97 per cent. Even though the Company has given priority to sale of rubber latex, the production cost of rubber related products had not been controlled and as such, the said cost had increased by 12 per cent.

3. Operating Review

3.1 Idle or Underutilized Property, Plant and Equipment

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
The rubber factory constructed in the years 2016 and 2017 on the Attanagalla Estate with a cost of	A financial report was prepared before constructing the factory and at that stage, the approval of the	The Management should take action to make use of the factory.

Rs.19.31 million was closed down since the year 2018. As such, machinery and other assets therein had not been made use of. Moreover, a maintenance cost of Rs.456,507 had been incurred in the year under review for maintenance of the factory and salaries of the watcher.	Board of Directors had been granted for the said construction considering the profit of one kilogramme of smoked sheets. However, the Board of Directors had decided at the meeting held on 21 September 2018 to temporarily discontinue the production activities of the rubber factory, considering control of the production cost by supply of rubber latex to a selected purchaser by calling tenders rather than producing and selling smoked rubber sheets due to the rapid decrease in the price of rubber.	

3.2 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The old official quarters of the Internal Audit Manager had been renovated without finding out the ability of constructing a new building with an expenditure of Rs.4.5 million and the ability of adding an alternative building to the Company. Moreover, in this renovation, various construction deficiencies were apparent in the frames, doors, windows, in laying of tiles and in the ceiling for which an expenditure of Rs.616,988 was incurred. In constructing the official quarters of the Officer- in-Charge of the Area Estate of Muthugala with an expenditure of Rs.2.74 million, constructions had been delayed by 21 months exceeding the period of	The Deputy General Manager residing in a nearby house on rental basis due to the unavailability of official quarters, keeping the official quarters occupied by the Audit Manager closed since January 2018 as he left the service and no requirement of official quarters for the new Audit Manager arose. If the said building could be modernized and made use of, it could be achieved with a cost less than constructing a new building. In analyzing the prices prevailed then, the Company has to incur a cost between Rs.6.5 and Rs.7 million to construct a new building.	Economical and effective repairs of buildings should be ensured.

contract and construction defects in the walls and kitchen sink and polishing of the floor could be observed. The advance of Rs.479,880 paid to a private contractor on 13 December 2019 for constructing an official quarters at Thippilitenna, had been retained in hand by the contractor even by 16 June 2020, the date of Audit, without commencing works of the contract.		
(b) In terms of Guideline 4.2.1 (b) of the National Procurement Agency Circular No.08 of 25 January 2006, procurement activities envisaged at least for a period of three years shall be listed. However, action had not been so taken and the Company had prepared the Procurement Plan only for the year under review.	As this is a Company operating mainly on agricultural activities, there is a difficulty of preparing the Procurement Plan practically for a period of 03 years. However, action will be taken to prepare the relevant Procurement Plan for a period of 03 years in future, drawing special attention therefor.	Action should be taken in terms of provisions in the Procurement Guidelines.