Elkaduwa Plantation Limited - 2019

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1. Financial Statements

1.1. Disclaimer of Opinion

The audit of the financial statements of the Elkaduwa Plantation Limited 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 report to Parliament appear in this report.

I do not express an opinion on the financial statements of the Company. Due to the significance of the matters discussed in the Basis for Opinion section, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2. Basis for Disclaimer of Opinion

My opinion is disclaimed on the basis of para 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 disclaimer 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. Audit Scope

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 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. Audit Observations on the preparation of Financial Statements

1.5.1. Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance	Management Comment	Recommendation
(a)	In accordance with the paragraph 42 and 43 of Sri Lanka Accounting Standards 08 after adjusting of prior periods errors retrospectively should be corrected the comparative information presented with the year under review, but the company did not do so and the correction of Rs. 58,365,064 for deferred tax liabilities due to the errors made in the previous year was stated in the changes of equity statement for the year 2019 without adjusting retrospectively.	Accounting corrections have been made in accordance with the standards and the relevant correction has not been reflected in the financial statements retrospectively. The reason is that deferred tax items accepted as an asset before correction are recognized as a liability after correction. The said adjustment has been adjusted in the retained earnings relating to the previous year in the statement of changes of equity and has not been recognized as a correction of a misstatement in the financial statements retrospectively.	The comparative details of the respective corrections should be shown in the accounts.
(b)	As stated in Paragraph No. 81(d) of Sri Lanka Accounting Standards No. 12, when the tax rates used in the year under review and the previous year change, those rates should be disclosed in the financial statements, but the company had not disclosed the changes in income tax rates during the year under review.	The disclosures made by the auditor in this regard are accepted and the relevant corrections have been made in the final accounts of 2020.	Tax rate changes should be disclosed in the financial statements.
(c)	According to paragraph 37 of Sri Lanka Accounting Standards No. 16, bearer biological assets related to agricultural activities should be presented under	It is the company's accounting practice to show the host biological assets in a separate column in the section that includes property, plant and equipment	It should be done according to the standard.

	property, plant and equipment in the statement of financial position, but it was presented as a separate item.	contained in non-current assets. As per the auditor's recommendations, the it will be aligned as a sub-asset under property plant and equipment from the year 2020.	
(d)	Due to not done the annual review of useful lives of non-current assets as per paragraph 51 of Sri Lanka Accounting Standards No. 16, as at 31st December 2019, the fully depreciated and still in use assets include office equipment worth Rs.6,489,737, furniture worth Rs.1,546,040, machinery worth Rs.4,057,937 and vehicles worth Rs.22,993,065. The value had not been revised and the correct capacity value shown in the financial statements.	There is no possibility of allocating funds for asset valuation within the company's existing cash flow. However, the audit and management committee of the company was informed in this regard, where the Land and Building Valuation Department has given instructions to be valued and accounted for and other property and equipment to be revalued and accounted for according to the Treasury circulars.	It should be done according to the standard.
(e)	Although according to paragraph 55 of Sri Lanka Accounting Standards No. 16 and according to the company's accounting policies, fixed assets should be depreciated after they are purchased and brought to a ready-to-use condition, but due to full depreciation of fixed assets only in the year of disposal, the amount of depreciation in the year under review of the company was less and the profit and assets of the year were more than that amount.	Please be informed that according to the new accounting standards, the policy will be changed and accounting will be done from the year 2020. As per the company's depreciation policy, although capitalized in the conversion year, the depreciation starts from the second year onwards. Accordingly, depreciation has not been calculated in connection with the recovery of the relevant assets.	Depreciation should be calculated and accounted for as per the standard.
(f)	According to paragraph 57 (d) 1 of Sri Lanka Accounting Standards No. 19, the actuarial profit or loss should be shown under other comprehensive income, but the actuarial loss of Rs. 12,709,520 related to the year under review was not recorded under other comprehensive income. Accordingly, the total comprehensive income of the company was over-accounted for by that figure.	We acknowledge the audit observations and inform that the relevant corrections have been made in the 2020 final accounts.	As per Sri Lanka Accounting Standard, the actuarial gain or loss should be shown under other comprehensive income.

1.5.2. Accounting Policies

	Audit Issue	Management Comment	Recommendation
(a)	In calculating the values of the main crops and side crops cultivated by the company, there was no transfer of any crop from immature cultivation to mature cultivation in relation to the year 2019, and the company follows a policy regarding the transfer of these crops from immature cultivation to mature cultivation was not disclosed in the financial statements.	Although many plantations are started with large capital costs, It is unable to disclose this in the financial statements as there is no firmly identified method to transfer from an immature crop to a mature crop according to the general standards of the industry based on facts such as the lack of identification of sufficient physical factors to identify it as a mature crop and the failure of many crops. According to the estates, the existing immature crops are physically inspected and after verifying whether they are suitable for income-generating purposes, the transfer from immature crops to mature crops is done with the related costs. In the future, the accounting notes will disclose the current “method of transfer”.	Accounting policies for transfer from immature to mature crops should be formulated and disclosed in the accounts.
(b)	Due to the non-adherence of an accounting policy regarding the time it takes for immature plantations to mature, the plantations worth Rs.87,740,383, which exceeded 25 years transferred from the Sri Lanka State Plantation Corporation when the company was established in 1993, were shown as immature plantations in the financial statements	Even at the time of transfer of this asset to the company, the values related to which fields of cultivation cannot be ascertained separately; only the book value is maintained as an immature plantation. As there is insufficient evidence to write off the said balance, it is further included in the accounts as an asset under immature crops.	Mature plantations should be properly accounted for and this balance should be written off on sufficient evidence.

1.5.3. Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In presenting the sales of consumer biological assets in the financial statements, although the difference between the selling price of consumer biological assets sold during the year under review and its cost should be presented separately in the financial statements as profit on sale of consumer biological assets and as profit on appreciation of consumer biological assets during the year; the company respectively	This is the company's practice of accounting for consumable biological assets so far and the note will be presented in 2020 showing profits separately as disclosed by the auditor.	Biological assets must be properly accounted for in the financial statements.

	Rs. 15,757,671 and Rs. 59,807,526 and the sum of those profits was Rs. 75,565,197 in total value was shown in the financial statements under other operating income as well as under biological assets.		
(b)	Although 44.22 hectares of land with a book value of Rs.573,904 had been released to external parties for various purposes at the end of the year under review from the land given to the company by the State Plantation Corporation of Sri Lanka in 1993, the released lands were not disclosed in the financial statements of the year under review.	The total lease value of the lands transferred from Sri Lanka State Plantation Corporation to Elkaduwa Plantation Company is Rs.104,262,376. Transfer notes have not been accounted for as there are no clear documents regarding the handing over of the tenure of the freed lands to external government agencies. Disclosure of facts only has been disclosed in Sub No. 1.1 of Account Note No. 01.	Detailed information about land released to external parties should be disclosed in the accounts.

1.5.4. Unreconciled Control Accounts or Records

	Item	As per Financial Statements (Rs.)	As per Corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
(a)	Fixed deposit interest income receivable	9,929,755	6,609,816	3,319,939	A standing order has been given to invest the interest of Rs.3,319,939 per annum on the fixed deposit. The interest due on January 18, 2020 will be transferred from the Fixed Deposit Interest Receivable Account to the Investment Account.	The reasons for these changes should be investigated and necessary adjustments and corrections should be made.
(b)	Fixed Deposit Balance	79,761,781	78,174,773	1,587,008	The investment in fixed deposits is recognized in the asset account at the end of the accounting year and the existing balance is updated on the maturity date of the fixed deposit. Notices for renewal of fixed deposits are issued on their maturity date but do not indicate the value to be had at the end of the accounting year.	The reasons for these changes should be investigated and necessary corrections should be made.

(c)	Related party transaction value	0	16,127,948	16,127,948	So far the current account balance between the estates and the head office has been settled. The remaining balance to be settled is Rs.4.3 million.	Reasons for changes in current accounts should be investigated and necessary corrections should be made.

1.5.5. Documentary Evidences not made available for Audit

	Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
(a)	Property Plant & Equipment	52,990,723	Deeds relating to the Lands	At the time of the establishment of the Elkaduwa Plantation Company, the related land transfer was assigned in accordance with the Extraordinary Gazette Notice dated 23 July 1993. At the time of assigned, no other documents were given apart from the gazette, and then lease agreements were prepared and signed based on the gazette and other information. The extent and limits of the land were included in the agreement. The non-availability of maps/deeds has been discussed at various times at the Ministry level and the Treasury level.	Maps / Deeds of the lands owned by the company should be repared.
(b)	Property Plant & Equipment	52,300,171	Fixed Assets Register	The company has a document maintained item by item regarding property plant and equipment related and it contains sufficient information to verify the balance belonging to the relevant asset category. However, a fixed asset register with special information has not been prepared.	A fixed asset register should be prepared with all item-by-item details of assets.
(c)	Advances paid in respect of gratuities	56,447,276	Names of persons advances received and amount paid and court receipts	Separate files relating to payments related to cases pending in court are maintained in the Human Resources Division of the Head Office and the estate where the case is pending. Once the full liability related to the case is settled, it will be transferred from the advance account to the liability account and the case related to these balances has not been confirmed to be fully closed.	Evidences regarding advances paid for gratuity should be submitted to the audit.

(d)	Loan balances due to Sri Lanka State Plantation Corporation and Janatha Estate Development Board	2,954,419	Balance confirmation letters	This is a liability arising out of transactions that took place many years ago and there is no sufficient information in the files to confirm it.	Required balance confirmations must be submitted to the audit.
(e)	Payable Balances by the company as on 31 December 2019	31,616,996	Schedule relating to balances	The related schedules will be submitted for audit.	Schedules regarding to the payable balances should be submitted to Audit.
(f)	Advances, pre payments and other income	1,521,522	Details of unrecognizes balances	I accept the disclosure made by the auditor.	Evidence relating to unrecognized balances should be submitted to the audit.
(g)	Property Plant and Equipment	2,467,193	Information of Water supply, electricity supply, land development and Calculation of depreciation related to repairs of two cars.	The relevant information has been provided to the audit.	Sufficient information relevant to the calculation of depreciation should be provided to the audit.
(h)	Withholding tax included in income tax calculation reports	673,975	Certificates related to withholding taxes issued by the bank	Withholding values relating to withholding tax are included in fixed asset renewal notices. Based on that, the withholding tax account has been prepared and the withholding tax certificates have not been obtained by the company. I accept the disclosure made by the auditor.	Withholding tax certificates issued by the bank should be submitted for audit.
(i)	Debtors	100,505,547	Letters calling for balance confirmations by the company on behalf of 24 debtors and confirmations of debtor balances settled after the year under review.	Some of the balances mentioned in the schedule are the balances that need to be further compared and some balances are the balances related to accounts that have not been transacted for a long time. A case has been filed through the Attorney General's Department to recover the balance related to Pride T Institute for 29 million. Also, the company has reacquired the Bandarapola tea factory which was leased to the Pride Tea Company. Legal proceedings are being	Letters calling for balance confirmations, balance confirmations and information about settled debtor balances after the year under review should be provided to the audit.

				carried out to recover the balance due in the name of Ratwatta Tea Factory and APN Pvt. 07 other accounts will already be transacted.	
(j)	Debentures issued and debenture interest payable	5,000,000 14,400,000	Documents related to debenture certificate and issuance of loan	The company does not have the original copy of the debenture issue and a photocopy of the same was submitted to the audit earlier. The debenture release period has passed but it has not been released till now and the interest also accrued.	The debenture certificate and the documents related to the issuance of the loan should be submitted for audit.
(k)	Creditors	39,114,687	Balance confirmation letters for 20 creditors	Creditors have not responded even though the company has sent letters confirming the balance.	The company should arrange to provide the balance confirmations to the audit.
(l)	Provision for Doubtful debtors	4,186,615	Detailed debtor aged analysis and written evidence of steps taken to recover debt balances	The disclosure will accept made by the Auditor.	Detailed information related to provision for Doubtful debt and debtor age analysis should be submitted to the audit.

1.6. Accounts Receivable and Payable

1.6.1. Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Acceptable reasons were not explained for the existence of negative balances of Rs.13,204,974 in the balance of Rs.78,669,430 included in trade and other receivables.	At the time of creation of accounts, two accounts were maintained for the same debtor on behalf of debit and credit note. Accordingly, the total of credit account balances of existing borrowers has been included as credit balances.	Correct accounting practices should be followed
(b)	In the debtor period analysis of the head office and 8 estates, for the debtor balances of Rs. 46,073,219 and Rs. 2,993,965 more than one year and the debtor balances of Rs. 31,926,318 and Rs. 11,320,836 that exceeded 3 years, so	More than 60% of the debtors are taking legal action to recover and as there is no specific information regarding certain balances, we are informed that there is a problem of write-off as bad debt. Regarding the	Adequate actions should be taken to settle outstanding long-term debtor balances.

	far the company had not taken steps to recover or write off as bad debt or take appropriate action.	balance to be written off, it was presented to the audit and management committee of the company and it has been instructed to get the approval of the Treasury and write it according to the approval of the Board of Directors. The relevant correction will be made in the accounts of the year 2021.	
(c)	In the year under review, the opening balance of the interest receivable account was Rs.7,921,409 and on January 31, 2019, another amount of Rs.1,998,813 was added to the said balance as a correction of the opening receivable balance. Accordingly, the total balance brought forward in the relevant account was Rs. 9,920,222. But at the end of the reviewed year, it was observed that the balance of interest that should have been received at the beginning was shown in the same way in the accounts and this was observed in the audit as an error in the accounting.	The interest related to 05 fixed deposits due during the year has been included in the "Fixed Deposit Interest Account" and the interest to be reinvested related to the other 02 fixed deposit accounts has also been recognized and accounted for as income for the period. It is the Company's normal accounting practice to transfer fixed deposits held for investment of interest to asset accounts after their maturity.	The interest income relating to the period should be correctly disclosed in the financial statements.

1.6.2. Payables

	Audit Issue	Management Comment	Recommendation
(a)	The trade and other payable balance of the head office as on December 31, 2019 is Rs.43,307,112, out of them there were 14 creditor balances worth Rs.24,238,604 over 3 years, 16 creditor balances worth Rs.12,405,887 between 1-3 years, and 12 creditor balances worth Rs.3,131,086 between 91-365 days and the company not settle balances on time is observed as a controversial issue.	There were not enough financial facilities to settle the balance due within the existing cash flow and many programs have been implemented to stabilize the company's cash flow. As soon as the cash flow stabilizes, the relevant creditor balances will be settled based on the legal requirement of settlement.	Sufficient action should be taken to settle the long term credit balances.
(b)	The amount of refundable tender deposits in the trade and other payable balances of the head office is Rs. 10,587,968, and in that balance, there were collateral money worth Rs. 6,393,367 and	There were insufficient financial facilities to settle the refundable tender deposits and security deposit balances within the	Sufficient action should be taken to settle the long term credit balances.

	refundable deposits worth Rs. 4,194,600. It was observed during the audit that there are very old balances in that balance that is balances from the year 2006.	existing cash flow and many programs have been implemented to stabilize the company's cash flow. As soon as the cash flow stabilizes, the relevant balances will be settled based on the legal requirement of settlement.	
(c)	In the examination of the trade and other payable account balances of the estates belonging to the company, Rs. 16,439,526 have to be paid to the trade creditors as at 31st December 2019 and there were 15 creditor balances worth Rs.6,952,819 exceeding 3 years, 06 creditor balances worth Rs.1,006,130 between 1-3 years, 07 creditor balances worth Rs.4,006,677 between 90-365 days and the company had failed to settle the relevant balances on time.	The disclosure made by auditor will accept.	Sufficient action should be taken to settle the long term credit balances
(d)	The balance of brokers' advances and other payables payable by the company is Rs.6,477,515 and all the balances in that balance were saw to be more than 91 days. According to that, it was seen that the loan balance to be paid between 91-365 days is Rs.51,421, the loan balance to be paid between 1-3 years is Rs.403,217, and the loan balance is more than 3 years is Rs.6,022,878.	Audit observations will be accepted.	Sufficient action should be taken to settle the long term payable balances
(e)	During the audit it was observed that, other creditors of the company's estates (debts to be paid) are Rs.6,785,425 and in this balance, Rs.1,271,981 are due between 90-365 days, Rs.1,557,745 are due between 1-3 years, and Rs.1,200,167 payable credit balance are due more than 3 years	Audit observations will be accepted.	Sufficient action should be taken to settle the long term credit balances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Employees Trust Fund Act No. 46 of 1980, Employees' Provident	Due to the non-settlement of the company's statutory liabilities as at 31st December 2019, with	There is no ability to make payments due to the company's current cash	According to the provisions of the Act, the statutory

Fund Act No. 15 of 1958, Payment of Gratuity Act No. 12 of 1983	the surcharge Rs. 14,244,657 to the Employees' Trust Fund, Rs.160,860,040 to the Employees' Provident Fund and Rs.6,095,671 to the Estate Employees' Provident Fund (EPPS), Rs. 9,971,730 to the Ceylon Planters' Provident Fund (CPPS) remain due. A statutory liability of Rs.336,164,112, including Rs.144,992,014 as gratuity and surcharge, remained unsettled.	flow.	obligations of the company should be properly settled.

1.8. Cash Management

	Audit Issue	Management Comment	Recommendation
(a)	According to the written agreement with Halawata Plantation Company, the company had obtained a loan of Rs. 15,000,000 and Rs. 5,000,000 respectively under an interest rate of 8 percent on the agreement to pay off in 3 years and by the end of the year under review, the company had not settled the amount of Rs.34,719,452 including the loan amount and the interest amount of Rs.14,719,452 as at 31st December 2019.	Due to the company not having enough cash flow to repay the loans and interest received from external parties, the payment has defaulted. A number of programs have been implemented to increase cash flow and if the desired targets are met, payments will be settled.	The loan gathered from external parties and interest should be settle promptly.
(b)	In November 2019, a loan of Rs. 8,760,400 was given to the Elkaduwa Plantation Company to pay in 10 monthly installments from the Joint Promotion Fund of the Sri Lanka Tea Board as per the cabinet approval for Deepavali advance payments to the workers of the local plantation companies. Furthermore, the company has recovered the advance money from the salary of the said employees, but the company has not made the refund to the Sri Lanka Tea Board as of the date of audit.	Due to the company not having enough cash flow to repay the loans and interest received from external parties, the payment has defaulted. A number of programs have been implemented to increase cash flow, and if the desired targets are met, payments will be settled.	Taken loan should be settle promptly.

1.9. Non -compliance with Tax Regulations

	Audit Issue	Management Comment	Recommendation
(a)	According to paragraph XIV of Schedule I of the Nation Building Tax Act, tea supplied to a registered broker for sale at the Colombo Tea Auction is exempt from tax under this Act, but operating income earned in addition is subject to Nation Building Tax. Accordingly, the income of Rs. 59,586,736 tea sold to the consumer by the company excluding the tea auction is subject to tax, and the tax amount of Rs. 1,191,734 payable thereon was not accounted for as nation building tax in the year under review.	It is not clear how the income from the sale of tea to the consumer was calculated except the income received from the tea auction of Rs.59,807,526. However, due to the company's ongoing negative cash flow, the company has failed to settle taxes and other statutory payments.	Tax liability for all incomes should be calculated and accounted for.
(b)	According to section 2 (c) of the Nation Building Tax Act, income tax received under other income heads should be subject to income tax, but in the accounting year 2019, Rs. 48,762,226 other incomes, a tax liability of Rs.975,245 was not accounted for in the year under review by not taking into account for the nation building tax calculation.	Due to lack of ability to pay, tax calculation and accounting has not been done. This is not taken into account as it is a very low percentage when calculating the main business function tax exemption and its value.	Income received under other heads of income shall be subject to tax.
(c)	In calculating the income tax liability of the reviewed year, since the company is an agricultural company, it is correct to use the tax rate of 14 percent to calculate the tax liability for operating income, but it is not correct to use the tax rate when calculating the tax liability for interest income, another source of income. Meanwhile, the tax rate of 24 percent should be used for that. As a result, the tax liability of Rs.1,155,385 was calculated as Rs.673,975 for the interest income of Rs.4,814,106 included in the tax calculation reports, so the tax liability was under calculated by Rs.481,410.	As per the Act, the concessional tax rate imposed for the agricultural sector is a maximum of 14 percent, so the tax rate for other incomes was also calculated at a maximum of 14 percent. The opinion of the management is that there is no technical error.	Calculation of tax liability should be done using correct tax rates.
(d)	Instead of accrual basis when considering interest income while calculating tax liability for the financial year 2019/2020, using cash basis, interest income is Rs. 3,997,519 due to understatement, income tax liability was under calculated by Rs.959,404.	In the calculation of tax, interest income is calculated on the cash basis as per the Act.	Tax calculation should be done on accrual basis.

(e)	According to Section 2 of the Economic Service Charges Act No. 13 of 2006, every entity whose income per quarter exceeds Rs. 10 million should be subject to tax, but since the company has not acted accordingly, for the total turnover of Rs. 184,831,138 in the financial year under consideration, Rs. 462,077 (Rs. 184,831,138*0.25%) was payable as Economic Service Charge.	Due to lack of ability to pay, tax has not been calculated and accounting has not been done.	Payment should be made in accordance with the provisions of the Economic Service Charges Act.
(f)	During the audit, it was observed that an interest that was not received in cash was recorded in the accounts while considering the interest income for the company's tax calculation in the financial years 2018/19 and 2019/20. Additionally, the withholding tax balance related to unearned interest is also understated. Thus, it was observed that an undisclosed amount of Rs.322,372 remains as withholding tax in the tax records.	A standing order has been given for reinvestment of the interest relating to two fixed deposits and it is normal accounting practice to recognize the interest on such investment under interest income. Taking this into account in the calculation of tax will also follow the principles of normal accounting practice as there is no proof of fault under the Act.	Taxes should be calculated correctly and adjustments made to the accounts.
(g)	For the year under review, the company did not recognize the provision for deferred taxes in the income statement and stated it as Rs.8,814,789 in the statement of changes in equity, so the loss of the year was reduced by Rs.15,151,238.	The disclosure will accept made by auditor.	Provisions for deferred taxes should be recognized in the income statement.
(h)	According to sub-section 19 (b) of the Inland Revenue Act No. 24 of 2017, the uncompensated losses from the business for the last 06 assessment years can be deducted in the income tax calculation, but due to the company considering it as 07 years, the deferred tax liability has been reduced by Rs.23,894,592 Deferred tax expense was reduced by that amount.	This loss has accumulated as the company continues to report tax losses. The company has calculated the deferred taxes considering the conversion year and another 06 years.	Adjustments should be made in respect of unset off losses while calculating the tax liability.

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(i)	Although the company had made the calculation and payment of income tax in accordance with the Inland Revenue Act No. 24 of 2017, in the note No. 23 of the financial statements, it was stated that the activities were done in accordance with the now repealed Act No. 10 of 2006.	Appropriate correction will be made.	The information should be presented correctly in the notes.
(j)	According to Section 19 of the Inland Income Tax Act No. 24 of 2017, an uncompensated loss incurred by the person from the business or any other business can be adjusted only for the last six assessment years, since the company shows a loss of Rs.170,675,657 in the year 2013, it is observed that the inclusion of that balance in the tax returns is not correct as per the said section.	Disclosures made by the auditor will be accepted.	Losses of previous years should be dealt with in tax calculation.
(k)	According to Section 126 of the Inland Revenue Act No. 24 of 2017, the income tax report must be submitted to the Inland Revenue Department on or before November 30 of the coming year, even if there is no income tax liability, including the relevant information. The 2019/2020 income tax report related to the assessment year 2019 had not been submitted to the Inland Revenue department by 27th January 2022.	Disclosures made by the auditor will be accepted.	Tax returns should be submitted to the Inland Revenue Department.
(l)	In the event that it appears to the Commissioner General that a person liable to provide a tax return in terms of Section 127 of the Inland Revenue Act No. 24 of 2017 has not done so, the Commissioner General shall, within a period specified in the notice, not less than 14 days from the date of delivery of the notice In, it was observed during the audit that there is a risk of imposing such an order against the company as there is a possibility of ordering by a notice in writing to the person concerned to provide a report.	Disclosures made by the auditor will be accepted.	Tax returns should be submitted to the Inland Revenue Department on time to avoid legal problems.
(m)	In the audit, it was observed that in accordance with Section 152 of the Inland Revenue Act No. 24 of 2017, a person may be convicted under this Act due to non-payment of tax and submission of reports.	Disclosures made by the auditor will be accepted.	Tax returns should be submitted to the Inland Revenue Department on time to avoid legal problems.

(n)	According to sub-section 06 of the Economic Service Charge Act No. 13 of 2006, every entity whose turnover exceeds the taxable turnover must pay the economic service fee on or before the 20th day of the following month after the end of the quarter, but the company had not submitted the reports or paid the fee in the 2019 financial year. It was observed during the audit that, the Section 10 of the Act provides that any service charge shall be deemed to be in default where the service charge or any part thereof for any quarter is not paid on or before the date specified under Section 6 of the Act and every director or other chief officer of the company shall be deemed to be in default for the purposes of the Act.	Defaulted due to lack of sufficient cash flow to settle employee statutory payments and other statutory payments. A number of programs have been implemented to increase cash flow, and if the desired targets are met, payments will be settled.	Economic service charge should be paid on time.
(o)	According to Section 04 of the Nation Building Tax Act No. 09 of 2009, the company had not calculated the nation building tax, remitted the tax and submitted the reports to the Inland Revenue Department.	The company has defaulted due to insufficient cash flow to settle the payments. A number of programs have been implemented to increase cash flow, and if the desired targets are met, payments will be settled.	The company should calculate the nation building tax, remit the tax and submit the reports to the Inland Revenue Department within the stipulated time.

2. Financial Review

2.1. Financial Result

The operating result of the reviewed year was a loss of Rs.60,526,270 and correspondingly the loss of the previous year was Rs.33,622,258. Accordingly, a deterioration of Rs.26,904,012 was observed in the financial result. This decline was mainly due to the decrease of Rs. 71,936,330 in income from the sale of tea leaves compared to the previous year.

2.2. Trend Analysis of major Income and Expenditure items

In the year under review, the main income of the company, the tea green leaf sales revenue has decreased by 26 percent compared to the previous year, while the rubber and coconut sales revenue has decreased by 9 percent and 13 percent respectively. Also other expenses Rs. 5,289,509 had increased by 152 percent and administrative and financial expenses had increased by 17 percent and 46 percent respectively.

2.3. Ratio Analysis

(a) Current assets ratio in the year under review and last year was 0.24 : 1 and 0.45 : 1 respectively and quick assets ratio was 0.23 : 1 and 0.44 : 1 respectively. In the reviewed year and the previous year, the value of trade and other payable balances were Rs.325,280,667 and Rs.283,722,735 respectively and short-term loans were Rs.127,768,778 and Rs.83,505,208 respectively, the value of current liabilities has increased was mainly due to the deterioration of current assets and quick assets ratios.

(b) In the year under review, the gross loss ratio and net loss ratio were 46 percent and 23 percent respectively, while in the previous year those percentages were 20 percent and 10 percent respectively, so in the year under review, the gross and net loss ratio had increased by 26 percent and 13 percent respectively.

3. Operational Review

3.1. Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Although it is standard practice to calculate the value of consumable biological assets by calculating the cash flows based on the future value of the trees, discounting them and calculating the present value of those cash flows, the company had not done so in the calculation of consumable biological assets. Furthermore, instead of using the new timber prices issued by the State Timber Corporation for the year 2019, the assets were calculated using the old prices issued in the year 2017.	Valuation of consumable biological assets incurs huge cost so the value has been estimated on the basis of Sri Lanka State Timber Corporation's calculation document which is primarily approved for asset valuation. Since there was no updated price list available, the assets have been assessed based on the last price list provided to us by Sri Lanka State Timber Corporation.	The cash flows should be calculated based on the future value of the trees, discounted and the present value of those cash flows should be followed by standard methods.
(b)	In the Nelaulla estate, which the company acquired as a tax base, 232 hectares of land valued at Rs.3,033,271 had been occupied by the squatters, and no action had been taken to re-appropriate the land or take any other appropriate action to solve the problem.	All possible activities have been done at the company level to reclaim the land occupied by the squatters. All the information in this regard has been given to the Ministry of Plantation Industry's Plantation Management Supervision Division, which is the authorized body to re-acquire the illegally occupied lands of the local plantation companies. The COPE committee has emphasized to the company to resolve this issue at the ministry level.	The recommendations of the public enterprise committee should be implemented and land issues resolved.