

## **Elkaduwa Plantation Limited - 2020**

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### **1. Financial Statements**

#### **1.1. Qualified Opinion**

The audit of the financial statements of the Elkaduwa Plantation Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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 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,
- 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**

<b>Non Compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Due to non-annual review of the effective life of non-current assets in accordance with paragraph 51 of Sri Lanka Accounting Standards 16, the correct carrying value was not disclosed in the financial statements as at 31 December 2020 of fully depreciated and still in use cost of the office equipment worth Rs.6,513,585, furniture worth Rs.1,546,037, machinery worth Rs.4,057,937 and vehicles worth Rs.22,993,067.	In principle some assets are fully depreciated but are still being used by the company. In this regard, a proposal was submitted to the audit and management committee of the company, where recommendations were given to be assessed and accounted for by the land and building assessment department and for other non-current assets to be reassessed and accounted for by a committee as per the Treasury circulars. Accordingly, vehicles and equipment will be revalued and accounted for in 2021.	The correct carrying value of the assets should be disclosed in the financial statements.
(b) According to paragraph 57 (d) (i) of Sri Lanka Accounting Standards 19, the employee benefit actuarial gain or loss should be shown under other comprehensive income, but actuarial loss of Rs.3,222,308 relating to the year under review was accounted as non-current liabilities without being recorded under other comprehensive income.	Correction will be made in 2021 Account	The actuarial loss of employee benefits should be accounted for under other comprehensive income

- (c) According to paragraph 37 of Sri Lanka Accounting Standards No. 16, bearer biological assets related to agricultural activities should be presented under property plant and equipment in the statement of financial position, but it was presented as a separate item. It is the entity's accounting practice to identify bearer biological assets under four major items and to state them separately as an additional note for ease of identification. Bearer biological assets will be corrected in the accounts in 2021 as a sub-asset under property plant and equipment. Bearer biological assets must be presented correctly.

### 1.5.2. Accounting Policies

Audit Issue	Management Comment	Recommendation
(a) At the beginning of the year under review, the value of the immature crops of main and side crops cultivated by the company was Rs. 286,367,924 and the policy followed by the company regarding the transfer of these crops from immature to mature crops was not disclosed in the financial statements.	Although many plantations are started with a large capital cost, based on the physical factors sufficient to identify as a mature plantation such as the growth of a tree, lack of minimum number of trees per hectare, lack of agricultural activities to be carried out at the initial stage and failure of many plantations, it is unable to transfer from immature plantation to mature plantation according to the general standards of the industry. This policy problem was reported to the audit and management committee of the company, where it was recommended to implement the accounting policy for a period of 07 years for tea, rubber and coconut, in addition to the physical examination of the ability of these plantations to contribute to income generation purposes. From the year 2021, it will be done accordingly.	The policy followed for transferring from immature to mature plantations should be disclosed in the financial statements.

### 1.5.3. Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) During the year under review, the gain on appreciation of consumer biological assets and the gain on sale amounted to Rs.48,450,198 and Rs.11,661,861 respectively without presenting them separately in the financial statements, was stated as profit from appreciation of consumable biological assets Rs. 60,112,059 in other operating income.	Gains on sale of assets and gains on changes in value will be shown separately in the 2021 accounts.	Gains on appreciation and sales of consumable biological assets should be accounted for separately in the financial statements.

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| (b) | Although the fixed deposit interest income of the year under review was Rs.7,793,085, in the financial statements of the company, as the fixed deposit interest was stated as Rs.3,626,895, the profit of the company was depreciated by Rs.4,166,190.   | The relevant disclosure will be corrected in the 2021 accounts.   | Interest calculation should be done correctly in the financial statements.   |
| (c) | At the beginning of the company i.e. 27 years ago, the biological assets such as tea and rubber, which were listed as immature plantations of Rs.87,740,085, were not transferred as mature plantations and at the end of the year under review, they were accounted as immature plantations under leased property and equipment.  | Even when these assets were assigned to the company, it was not possible to confirm separately the expenses incurred in relation to which fields of cultivation and only the book value was recorded as immature plantations under the bearer biological assets under the leased property. Due to the lack of sufficient evidence to write off the said balance, it is further included in the accounts as a sub-asset under leased property. | Policies for transferring crops from immature to mature crops should be formulated and corresponding adjustments made in the financial statements accordingly. |
| (d) | According to paragraph 21 (3) of the Inland Revenue Act No. 24 of 2017, for tax calculation of a business entity, its income must be recognized on accrual basis, but the tax liability on investment income in the reviewed year is Rs.779,308, but in the financial statements, the tax liability on investment income had been accounted as Rs.635,870 less Rs.143,438. | While calculating the tax, the sources of income have been done on accrual basis and the tax variation has occurred due to under-accounting of fixed deposits.  | Taxes must be correctly calculated in the financial statements.  |
| (e) | Since taxes were not calculated for the company's lease income of Rs.4,305,061 for the year 2020, the income tax value of the reviewed year was underestimated by Rs.430,506.  | Correction will be made in 2021 account.  | Taxes must be correctly calculated in the financial statements.  |
| (f) | Although Rs.3,997,868 were reinvested from the fixed deposit interest income received during the year, according to the cash flow statement, the investment cash flow was reduced by Rs.370,973 as the fixed deposit investment value was Rs.3,626,895.  | Only the net investment flow for the year is calculated in the cash flow statement. There is no over or under calculation here.   | The value of the investment made in cash during the year under review should be correctly entered in the cash flow statement.                                  |

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| (g) | According to the employee benefits of the company, the cost for the year was Rs.33,850,464, but in the comprehensive income statement it was shown as Rs.31,107,591, so the profit of the company was overestimated by Rs.2,742,873.   | Correction will be made in 2021 account.  | Employee benefits must be properly adjusted in the financial statements.                                 |
| (h) | While calculating the profit of the year, Rs.3,196,501 as gratuity expense related to the year under administrative expenses and Rs.27,911,090 as gratuity expense of estate employees under cost of sales were adjusted to total gratuity expense of Rs.31,109,591. Since only Rs.11,463,802 were adjusted back to the operating profit in the cash flow statement, the net cash flow from operating activities was depreciated by Rs.19,645,789.   | This is shown in the account note No. 12 Retirement Benefit Obligation Notes net variation during the year (separation value) in the cash flow statement and the value paid during the year is adjusted in the cash flow statement as a cash outflow.   | The statement of cash flow should adjusted correctly.  |
| (i) | Calculations related to prior year adjustment of Rs.81,550,109 included in the changes of equity statement were not submitted.   | The schedules related to the prior year error corrections were handed over to the audit and earlier this disclosure was not made in the accounts. However, according to the auditor's request, the related disclosures will be made from the year 2021. | Detailed information relating to prior year adjustments should be submitted to the audit.                |
| (j) | At the end of the year under review, the credit of Rs.1,768,749 and Rs.1,185,676 owed by the company to the Sri Lanka State Plantation Corporation and the Janatha Estate Development Board respectively are not included separately in the financial statements and those values deducted from the unsettled debit balance of Rs.20,304,713 between the estates of Elkaduwa Plantation Company, a debit balance of Rs.17,350,294 was shown as related party transactions under current liabilities. | The disclosure made by the auditor will be accepted and the existing current account balance will be corrected as far as possible.  | Accounts receivable and payable balances should be accounted for separately in the financial statements. |

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| (k) | As at 31 <sup>st</sup> December 2020, the interest payable to Chilaw Plantation Company was Rs.16,319,452, although it was stated as Rs.15,686,097 in the financial statements, so the interest payable was under accounted by Rs.633,355.  | Correction will be made in the year of 2021.  | The interest payable should be shown correctly in the financial statements.  |
| (l) | At the end of the year under review, 24 lawsuits were filed against the company by internal and external parties and in the year 2020, the company had spent Rs. 1,208,412 as legal fees, but the lawsuits were not disclosed in the financial statements.  | Correction will be made in the year of 2021.  | The legal cases against company and conducted by the company should be disclose in the financial statements.                         |
| (m) | According to Gazette Notification No. 776/13 dated 23rd July 1993 and ten lease agreements dated 20th April 2011 No. 3776, 3778,3990, 3496, 3488, 3494, 3498, 3486, 3492, 3500 for 53 years assigned for 10 estates of 4,069 hectares from 1993 to 2023, the total amount of lease amounting to Rs.150,000 payable at the rate of Rs.500 per year from 1993 to 2023 had not been paid even by 31st October 2023 and no provision was made for those expenses in the financial statements. | The respective Rs. 150,000 will be accounted for appropriately in the financial statements of 2024. | Payments must be made in accordance with lease agreements and expenses must be accurately accounted for in the financial statements. |
| (n) | Insurance expenses of Rs.2,576,608 related to the year 2021 by debiting the insurance provision account of the reviewed year and crediting the general fee expense account, the expenses of the year had been decreased by that amount.   | Correction will be made in the account of the year 2021.  | Insurance pre-payments should be properly accounted for in the financial statements.   |

#### 1.5.4. Unreconciled Control Accounts or Records

Item	As per Financial Statements (Rs.)	As per Corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
Fixed Deposit Balance	83,388,676	82,586,026	802,650	The annual interest rate is invested in relation to two fixed deposit accounts contained in financial investments. Here the annual maturity date occurs in the middle of each year and it has been the Company's normal accounting practice to recognize the estimated accrual value relating to the period between the maturity date and the end of the accounting year.	Fixed deposit value should be properly accounted for.

#### 1.5.5. Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
As at 31st December 2020, the working capital of Elkaduwa Plantation Company had taken a negative value of Rs.526,165,684. Also, among the current liabilities which were Rs. 695,732,930, statutory liabilities such as employees' trust funds, employees' provident funds, estates staffs' provident funds and gratuities were Rs.438,496,941. But the total amount of current assets of the company was only Rs.169,567,246. It was observed that there is an uncertain condition of running the company based on this situation.	As on 31 <sup>st</sup> December 2020, the company's total current assets were Rs. 253 million (including investment assets) and the working capital on that date was minus Rs. 443 million. As at 31st December 2020, the company has a quantity of commercial timber worth close to Rs. 400 million and the sale of those assets in accordance with the company's forest management plan is in the process of paying the already due employee statutory payments in installments. From the year 2022, the employees' trust fund payments are being made properly and from the year 2023, the employee provident fund, estate staffs' provident fund and gratuity payments are also being made continuously. At present, the company is showing remarkable progress in its operational activities and positive growth in its financial position, and since the total statutory payments due are being released in installments, it has become possible to run the company without further financial support from the treasury or the government.	Efforts should be made to settle all statutory liabilities promptly and to maintain sufficient working capital requirements.



### 1.5.6. Documentary Evidences not made available for Audit

Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
(a) Free hold Property Plant & Equipment	51,784,377	Fixed Assets Register	An up-to-date register is maintained containing the values related to the assets collected under various items on an annual basis and on an estate basis. Asset acquisitions, disposals and depreciation are calculated based on that document. Accounting is done on historical cost basis and no consolidated asset register is prepared.	A fixed asset register should be maintained including all non-current assets.
(b) Withholding Tax	240,705	Withholding certificates	Tax When calculating tax, values related to the withholding tax are mentioned in the Fixed Deposit Renewal Office notices issued by the Bank of Ceylon. The withholding tax amounts have been accounted for on the basis of the original version of the notices and the certificates relating to the withholding tax have been obtained by the company. Fixed deposit renewal notices have also been submitted for audit.	Withholding tax certificates should be submitted for audit.

### 1.6. Accounts Receivable and Payable

#### 1.6.1. Receivables

Audit Issue	Management Comment	Recommendation
(a) In the accounts receivable balance of Rs.90,543,221 included in trade and other receivables, there was a total of minus balance of Rs.15,655,660 and of the accounts receivable balance, Rs.73,959,525, that is 82 percent were balances of more than 01 year.	Two accounts were maintained for debtors and one account for maintaining debit notes and one credit account for maintaining credit notes. Accordingly, the sum of the existing debtors' credit account balances is thus shown as a negative balance in the debtors. This will be corrected in the 2021 account as per the Treasury circular issued in 2023. A lawsuit has been filed for the recovery of the balance of Rs.40 million and the necessary activities to recover the other balances are currently being carried out.	Debtors should be accurately accounted for and collection of receivable balances should be done promptly.

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| (b) | As at 31st December 2020, in the balance of Estate Receivable of Rs.27,774,039, festival advances paid to employees are Rs.9,973,935 and Elkaduwa Estate's receivable from its cooperative society is Rs. 3,554,798 had also been included but the money had not been recovered till now. | In providing festival advances to labour employees, the issue is done after confirmation regarding the recovery of advances and most of the outstanding balances are unrecoverable. Most of these employees are permanent workers but cannot be recovered from wages due to absence from work without informing. Actions will be taken to recover outstanding balances through gratuity payments which are liable to pay for them. | Adequate action should be taken immediately to settle the receivable balance.                 |
| (c) | In the staff debtor balance of Rs.2,724,485 included in the financial statements, a balance of Rs.395,635 due from two management assistant officers who left the service was also included and the company was unable to recover that debt.  | One of the two employees with outstanding loan balances has been dismissed due to a disciplinary matter and a case is pending in the Labour Court regarding that employee. The other employee also resigned suddenly and the gratuity money owed to the concerned employees has not been settled till now and the amount owed to the institution will be recovered from that gratuity amount.                                      | Debt balances due from retired officers should be recovered immediately.                      |
| (d) | Elkaduwa Plantation Company had not taken steps to recover 23 debtor balances of Rs.11,682,350 due from more than 3 years and 06 debtor balances of Rs.1,342,405 between 1 and 3 years.   | These debtor balances will be reassessed and the recoverability will be checked and recovery will be done.   | Immediate action should be taken to recover the debtor balances.                              |
| (e) | Until 30 <sup>th</sup> September 2023, the company had not been able to collect the leased rent amount of Rs. 7,468,900 due on 31 <sup>st</sup> December 2020 from the private company that leased the Ratwatta Tea Factory owned by Elkaduwa Company in the year 2008.                   | A letter of demand has been sent to the tax collector regarding the recovery of this money and the leased property has also been repossessed. Legal action will also be going on with respect to the lessee.   | Immediate action should be taken to recover the lease rent amount from the concerned company. |

## 1.6.2. Payables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The trade and other payable balance of the head office as on December 31, 2020 is Rs. 51,363,382, there were 17 creditor balances worth Rs. 32,026,396 over 3 years, 11 creditor balances worth Rs. 11,378,069 between 1-3 years, and 07 creditor balances worth Rs. 3,742,428 less than one year existed but the company were not settled the balances on time.	The Company's existing cash flow does not have sufficient funds to settle accounts payable balances. A number of programs have been implemented to stabilize the company's cash flow. As soon as sufficient financial facilities are available, necessary arrangements will be made to settle the outstanding balance based on the current need and legal requirement.	Sufficient action should be taken to settle the long term credit balances.
(b) At the end of the year under review, the company had not taken the necessary actions to settle Rs. 4,972,890 and Rs. 3,113,468 in the refundable tender deposits of Rs. 15,161,975 included in the trade and other payable balance of the head office, which exceeded the 03 years and 02 years respectively.	The Company's existing cash flow does not have sufficient funds to settle accounts payable balances. A number of programs have been implemented to stabilize the company's cash flow. As soon as sufficient financial facilities are available, the necessary arrangements will be made to settle the outstanding balance based on the current need and legal requirement.	Arrangements should be made to settle the refundable tender deposits.
(c) The company got advance amount of Rs. 1,809,675 from the Madolkele Tea factory on the promise of supplying the green leaf to the factory, which had been included in the brokers' advances and other payable balance for more than 3 years, but not yet settled.	The Company's existing cash flow does not have sufficient funds to settle accounts payable balances. A number of programs have been implemented to stabilize the company's cash flow. As soon as sufficient financial facilities are available, the necessary arrangements will be made to settle the outstanding balance based on the current need and legal requirement.	Adequate action should be taken to settle outstanding advance balances.
(d) Although the debentures worth Rs.5,000,000 issued by the company to the Employees' Provident Fund in the year 1994 at an interest rate of 7.2 percent semi-annually were to be	Will agree with the disclosure made by the auditor.	Debentures and related interest should be paid and released.

released on 15<sup>th</sup> June 2000, and as of 31<sup>st</sup> December 2020, the debentures had not been released and an interest amount of Rs 15,120,000 had to be paid for the related debentures from 15<sup>th</sup> July 2000 to 31<sup>st</sup> December 2020.

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| (e) | Got by the company from Chilaw Plantation Company for settlement in 3 years Rs. 20,000,000 loan amount and Rs 16,319,452 interest had not been settled year under review and included it as short term borrowings in the financial statement. | Will agree with the disclosure made by the auditor. | Sufficient action should be taken to settle the long term loan and interest. |
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**1.7. Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Section 16 (1) of Part II of the Employees' Trust Fund Act No. 46 of 1980, Sections 15 and 16 of the Employees' Provident Fund Act No. 15 of 1958, Section 5 (1) of Part 02 of the Payment of Gratuity Act No. 12 of 1983	Since the payment of premiums was not made as per the referred regulations, along with the surcharge amount to the Employees' Trust Fund Rs. 20,290,283 and to Employees Provident Fund Rs. 223,580,122 and to Estate Staffs' Provident Scheme (ESPS) Rs. 7,708,982 and to Ceylon Planters' Provident Scheme (CPPS) Rs. 14,214,362 also remained payable. Amount of Rs. 172,703,192 gratuities with surcharges were not settled till 31 <sup>st</sup> August 2023.	The company along with the existing line ministries and the Treasury have used various methods to settle the deficit at different times but have failed to settle the deficit completely. A large number of cases have been filed against the company for un-settle of these statutory obligations. Under the orders given through the cases, payment of money is made to the court in installments and the payment of employees' trust fund has been started with effect from the year 2022 and from the year 2023 the payment of employees' provident fund, estate staffs' provident fund and Ceylon planters' provident fund will be made continuously.	A formal program should be prepared to settle the statutory obligations properly.

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| (b) | Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 1645 (a) | Although the officer in charge of vehicles should maintain a vehicle log book in accordance with the common form 267 for every vehicle and put all the notes that should be made regularly in it, the log books were not used in respect of 36 vehicles owned by the company.   | An officer in charge of vehicles was appointed for Elkaduwa Plantation Company on 05 <sup>th</sup> October 2022 and log books were not maintained as per the financial regulations and the records and documents related to the vehicles were maintained by the estates and admin department to which the vehicle was attached. | Log books should be maintained for each vehicle.   |
| (c) | F.R. 1645 (b)   | Although the driver of each vehicle should be asked to keep a daily driving record in accordance with the common form 268, such an inspection was not done.   | Vehicle running chart books will be maintained.   | As per the regulation daily running charts should be checked regularly.  |
| (d) | F.R. 1645 (c)   | Even though the officer in charge of vehicles should take care to instruct the vehicle drivers to enter all the notes to be included in the daily running chart immediately after completing each journey, it was observed during the sample audit inspection that the running charts were not signed. Also, although the fuel should be balanced daily in the daily running chart, the fuel balancing was not done properly in all the vehicles submitted for the audit. | Vehicle running chart books will be maintained.   | As per the regulation, the daily running charts should be signed by the appropriate officials and fuel balancing should also be done properly. |
| (e) | Section 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016              | Although a fuel check should be done after a period of 12 months after every fuel check or after 25,000 km or after a major overhaul of the engine, whichever is the earlier, no such check was   | This test has not been done before. On 05 <sup>th</sup> October 2022, the officer in charge of vehicles has been assigned to do this with the approval of the board of directors. Also, most of the vehicles in the company's   | All vehicles used by the company should be done fuel check.  |

done on the company's possession are 10 to 30 years old vehicles with poor fuel efficiency past their useful life. The company is of the opinion that it is impractical and uneconomical to carry out published tests on most of the vehicles in the company's possession as per circulars.

## 1.8. Cash Management

Audit Issue	Management Comment	Recommendation
A petty cash advance of Rs.50,000 had been given to the Colombo office of Elkaduwa Plantation Company and since the petty cash reimbursement was not done correctly in the year 2020, 08 cases were observed in the audit where cash exceeding that amount was kept from Rs.100,000 to Rs.200,000.	Petty Cash Advance Rs. 50,000 which will be reimbursed under petty cash control. Often the advance has to be repaid on two or three occasions in a month. Each premium is Rs. 50,000 and at the end of the month the book will have to be balanced to a value that exceeds the value of the advance.	Arrangements should be made to settle the imprest by reimbursing the petty cash imprest properly.

## 1.9. Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) According to Section 126 of the Inland Revenue Act No. 24 of 2017, even if there is no income tax liability on or before 30th November of the coming year, the tax return must be submitted to the Inland Revenue Department after entering the relevant information. As of 30 June, it had not been submitted to the Inland Revenue Department.	Proceedings will be done as per the Inland Revenue Act.	Tax returns must be submitted.
(b) According to Section 4 (4 'A') of Schedule 01 of the Inland Revenue Act No. 24 of 2017, although the tax for interest on investment assets of a company should be calculated as 10 percent, a tax liability of 14 percent was identified for investment interest.	According to the Act, investment income has also been recognized as a variable source in the business activity and the calculation of tax has been started under normal gradients.	According to the Act, 10 percent tax should be calculated on investment interest.

## 2. Financial Review

### 2.1. Financial Result

The operating result of the year under review was a profit of Rs.40,188,837 and correspondingly the loss of the previous year was Rs.60,526,270. Accordingly, an increase of Rs.100,715,107 was observed in the financial result. This growth was mainly due to the sales revenue of tea leaves, rubber and coconut increased by Rs.19,794,524, Rs.7,347,612 and Rs.11,226,607 respectively and the cost of sales for tea leaves decreased by Rs.77,083,447 compared to the previous year.

## 3. Operational Review

### 3.1. Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In the inspection of the estimated tea leaf yield and the actual tea leaf yield of the company's 06 estates, the actual tea yield in the year 2020 had decreased by 29 percent to 38 percent than the estimated amount and compared to the year 2019, the actual tea yield in the year 2020 had decreased by 159,615 kg. According to the age analysis of tea cultivation, seed tea cultivation was completely over 75 years and 63 percent of shoot tea cultivation was over 50 years. The percentage of tea plantations between 7 and 35 years old with high productivity is 7 percent.	Although the estimated amount of fertilizer in 2020 was 165,024 kg for 02 rounds, only 55,008 kg was used in the field. The non-application of chemical fertilizers recommended for tea cultivation and low annual rainfall in 2020 have affected the decrease in tea yield. The time has come for replanting the existing 63 percent seed tea plantation, but due to the company's lack of working capital, it is difficult to start new tea plantations. Compared to 2015, the number of tea trees in 2020 has decreased by 753,133 trees.	An urgent program should be put in place to establish new plantings and apply fertilizers properly.
(b) In comparison with the estimated production of rubber in the year 2020 in 04 estates of the company, it was observed that the actual production has decreased by a range of 16 percent to 28 percent and overall the actual production was decreased by 35,710 kg from the estimated production. 73 percent of the company's existing rubber plantations are plantations that have exceeded 60 years, that is plantations that have exceeded the effective life span, and the percentage of grafted rubber plantations with high productivity was about 27 percent.	73 percent of the company's existing rubber plantations are seed rubber plantations whose life span exceeds 60 years without productivity. The percentage of grafted rubber cultivation with productivity is 27 percent. In order to achieve the desired targets, the effective cultivation area in the company's rubber fields is limited to 27 percent. The budgeted targets for 2020 have not been reached due to the ban on the use of fertilizers, the inability to establish rain shelters and the Corona epidemic.	Steps should be taken to increase rubber production by applying an effective program to create new rubber plantations with higher productivity and transplanted rubber plantations and apply fertilizers properly.

- (c) In comparing the actual coconut yield and the estimated coconut yield in the year 2020 in 03 estates of the company, a decrease in the actual coconut yield from 23 percent to 94 percent was observed. Elkaduwa Plantation Company's coconut cultivation expansion is completed in the Millawana estate, while a small amount is implemented in the Hapugaspitiya and Nalanda estates. The prevailing climatic conditions in Hapugaspitiya and Nalanda estates, failure to apply the recommended amounts of fertilizer in the field at the right time, failure to carry out soil conservation activities due to high costs and animal damage have led to a decrease in yield. Efforts should be made to increase coconut productivity by preparing a proper program for soil conservation and fertilizer use.
- (d) Although the coconut industry standard for the company's fallen coconuts is 5 percent, in the year 2020 the number of fallen coconuts in the company's 03 coconut plantations was 248,535, which was about 30 percent of the actual yield in the year 2020. 247,071 coconuts fell only in Millawana Estate. The main reason for the increase in the number of fallen coconuts in 2020 was that the contractors did not come to break coconuts due to the corona epidemic situation in Millawana and Nalanda estates. However, the plantation management and the company have worked to protect the fallen coconuts as much as possible without allowing them to be stolen. Efforts should be made to reduce the percentage of fallen coconuts by breaking the coconuts within the proper period.
- (e) In the year 2020, the cocoa yield of the company was 1,209 Kg and the estimated yield for cocoa was 10,500 Kg. Accordingly, only nearly 12 percent of the expected cocoa yield could be reached in the year 2020. In the year 2020, there was no estimate of the pepper yield and the yield for that year was 4,184 Kg. Animal damage has strongly influenced the decline in cocoa productivity. The yield reduction has also occurred due to reasons such as the fact that the economic life of the existing cocoa plantations has exceeded, and lack of commercial maintenance. Pepper cultivation does not have a uniform yield every year and yields or does not yield in response to slight changes in climatic conditions. Instead of estimating the pepper crop as a major agricultural crop, the company has worked to maintain it as a variable source of income. Efforts should be made to increase productivity through proper maintenance of plantations and new plantations.



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| (f) | In the physical stock verification of the Company's Bandarapola tea factory as on 31st December 2020, there was 6,382 kg of unsorted tea and the balance as per books was 5,660.7 kg, resulting in an excess of 721.3 kg of tea. Accordingly, it was observed during the audit that there is no proper stock control. | The estate superintendents have been instructed to carry out the monthly stock audit and it has been accepted that the percentage of increase is higher than the standard value and the then estate superintendent has also been asked about this. The above excess physical stock has been added to the book value. | Stock control should be streamlined.                            |
| (g) | A stock of Rs.115,275 related to 04 types of items in the Bandarapola Estate was in the books from the year 2009, but it does not exist physically and the company had not taken steps to write off the relevant stock from the books.  | Prior to 2009, the tea factory was handed over to 'Pride Tea' and was handed over with these stock items at the time of re-handover of the factory and at that time the stock items were either used up or destroyed. The value of this is Rs. 115,275 which will be written off in the accounting year 2021.        | Inventories that do not exist physically should be written off. |

### 3.2. Idle or underutilized Property, Plant and Equipment

#### Audit Issue

Elkaduwa Plantation Company has 06 tea factories and Pansalathenna and Salagama factories were given to the private sector on a long-term lease basis. Only the production activities of the Bandarapola tea factory are carried out by the company and all 03 factories are not in working condition. That is, Elkaduwa and Pitakanda tea factories had been closed for a long time since 1987 and 2002 respectively. Also, although the Ratwatta Tea Factory was leased in 2008, the agreement was canceled in July 2019 due to non-payment of rental and it was observed that the production activities of the tea factory are not in operation and the machinery and equipment in the factory are idle even by the audit date of 02 June 2023.

#### Management Comment

To restore the Elkaduwa tea factory, at least Rs.350 million should be invested and to restore the Pitakanda tea factory, at least Rs.400 million should be invested. It has been identified as an uneconomic investment. It has been decided to dismantle the Pitakanda factory and the proceeds from the sale will be used to settle the arrears of statutory allowances of the estate's workers.

#### Recommendation

Proper utilization of idle assets should be done and proper steps should be taken in case of factories which are closed for a long period of time.

### 3.3. Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Elkaduwa Plantation Company head office had 35 approved cadres and 31 actual staff. Thus, there were 04 vacancies in 04 tertiary level posts as on 31 December 2020. Also, the approved cadre for estate staff is 116 and the actual staff is 88, a vacancy of 28 was observed. Although it was 24 per cent of the approved cadre, the company had not taken steps to fill these posts or revise the approved staff on the basis of estate performance.	In the year 2020, due to the establishment of Elkaduwa Plantation Company's head office in Matale area, when the officers of the head office in Colombo were transferred to the Matale office, some employees resigned due to their personal reasons. The management has ensured that the existing staff are adequate to carry out the administration and supervision of the estates properly.	Arrangements should be made to revise the approved cadre as there are sufficient staff.

## 4. Accountability and Good Governance

### 4.1. Submission of Financial Statements

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although the annual financial statements and the draft annual report approved by the Board of Directors must be submitted to the Auditor General within 60 days after the end of the financial year, the financial statements of the year 2020 were submitted to the Auditor General on June 05, 2023 and the accounts were approved by the Board of Directors on December 31, 2022. had The draft annual report has not been submitted for audit till now.	Due to the establishment of Elkaduwa Plantation Company's head office in Matale on the recommendations of the COPE Committee of the Parliament, several employees have left their jobs. However, with the approval of the Board of Directors, suitably qualified staff were recruited to maintain the basic functions of the Accounts Department. Accordingly, the preparation of the accounts will be done according to the timeline and the final accounts of the years 2021 and 2022 will be forwarded to the company's board of directors on the due date.	Annual financial statements and draft annual reports should be submitted for audit by the due date.