Elkaduwa Plantation Limited - 2021

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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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2. Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4. Audit Scope (Auditor's Responsibilities 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, 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

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Below are the non-compliances with Sri Lanka Accounting Standards 07.		
i.	Rs.900,000 received from the sale of the company's tractor and tailor was not shown in the cash flow statement.	The error will be corrected in the final accounts of 2022.	As per Sri Lanka Accounting Standards, the proceeds from the disposal of assets should be properly reported under investing activities.
ii.	Fixed deposit interest of Rs.4,144,367 received and reinvested by the company during the year under review was not shown as cash out flow.	The relevant amounts will be re-checked with the documents and relevant corrections will be made in the accounts of 2022.	Interest on reinvested fixed deposits should be properly shown under financing activities.
iii.	During the year under review, the gain on sale of consumable biological assets of Rs.55,174,471 was not adjusted through operating activities. Also, Rs.88,982,550 received from the sale of those assets was shown as Rs.33,808,079 in the cash flow statement.	This presentation error will be corrected in the presentation of the 2021 comparative information in the 2022 cash flow statement.	Profit/loss on sale of consumable biological assets must be properly adjusted in operating activities.

iv.	Rs.19,132,425 received from the sale of bearer biological assets was not shown in the cash flow statement.	The presentation error will be corrected in the presentation of the comparative information related to the year 2021 in the statement of cash flows of the year 2022.	Sales of bearer biological assets should be properly accounted for under investing activities.
(b)	In accordance with paragraph 57 D 1 of Sri Lanka Accounting Standards 19, the actuarial gain of Rs.53,226,343 relating to employee gratuity was not recorded under other comprehensive income for the year under review. According to actuarial valuation of employee benefits, the interest cost for the year was Rs. 18,590,736 and the current service cost of Rs.10,500,848 totaling Rs.29,091,584 should be adjusted in the calculation of profit, but in the year under review Rs. 14,785,105 has been used as employee benefits as an adjustment to the profit, the expenditure for the year is Rs.14,306,479 had been under-accounted for and the profit had been overstated by that amount.	In 2022, the comparative information related to 2021 will be corrected and presented. According to the actuarial valuation report, the balance to be recognized in the income statement is Rs.24,134,759 and those balances are included in the administrative expenses and selling expenses in the preparation of the final accounts. Thus the present value of employee gratuity provision is Rs. 178,749,675 correctly stated in the statement of financial position of the company as on 31st December 2021.	According to the Sri Lanka Accounting Standards, the employee benefit actuarial gain must be properly adjusted under other comprehensive income and the expenditure for the year in the income statement.
(c)	Contrary to paragraph 44 of Sri Lanka Accounting Standards 41, the company's consumable biological assets sold as timber amounting to Rs. 14,520,840 was included in the opening balance of mature bearer biological assets and the additions made to immature bearer biological assets in the year of review included timber plantation of Rs.12,072,025, so the bearer biological assets were Rs. 26,592,865 were overstated and consumable biological assets were understated by the same amount.	This presentation error will be corrected in the 2022 final accounts.	According to the provisions of Sri Lanka Accounting Standards consumable and bearer biological assets should be classified and accounted correctly

	Audit Issue	Management Comment	Recommendation
(d)	In accordance with paragraph 45 of Sri Lanka Accounting Standards No. 41, consumable biological assets of Rs. 689,011,347 were not presented in the financial statements classified as mature and immature.	Consumable biological assets will be presented as mature and immature consumable biological assets in accordance with Sri Lanka Accounting Standard No. 41.	According to the provisions of Sri Lanka Accounting Standards, consumable biological assets should be classified and accounted for as mature and immature.

1.5.2. Accounting Policies

Audit Issue	Management Comment	Recommendation
At the beginning of the year under review, there was a balance of immature bearer biological assets of Rs.300,802,698 and due to not following an accounting policy regarding the time it takes for immature plantations to mature, a balance of Rs. 87,740,383 which was assigned by Sri Lanka State Plantation Corporation in the year 1993 when the company was established, which exceeded 25 years, was also included in the immature bearer biological asset value.	As clear information about the immature plantations assigned by the Sri Lanka State Plantation Corporation was not given at the time of establishment of the company, those values have been presented in the accounts under immature plantations. On the advice of the Audit and Management Committee, this information will be referred to the Treasury for approval and will be written off from the books in future.	Policies should be developed and disclosed in the financial statements for the transfer of biological assets from immature to mature crops and appropriate corrections should be made.

1.5.3. Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In the year under review, the depreciation of equipment of Rs.268,096 was not included in the financial statements, so the profit for the year was overstated by that amount.	In the 2022 statement of financial position, the comparative information related to the year 2021 will be corrected.	Depreciation should be properly accounted for in the financial statements.
(b)	As per State Timber Corporation's rates, the value of consumable biological assets of the company in the review year was Rs. 640,561,139 though it was recorded as Rs.689,011,347 in the financial statement, so the value of consumable biological assets is Rs. 48,450,208 had been overstated.	According to State Timber Corporation prices Rs. 640,561,139 consumable biological assets by mistake at Rs. 689,011,347 will be corrected in the statement of financial position of 2022 in the presentation of comparative information	Consumer biological assets must be properly adjusted in the financial statements.

		related to 2021.	
(c)	As the opening balance was understated by Rs.48,450,208 in the valuation of consumable biological assets, the profit on valuation of consumable biological assets was overstated by that amount.	According to State Timber Corporation prices Rs. 640,561,139 consumable biological assets by mistake at Rs. 689,011,347 will be corrected in the statement of financial position of 2022 in the presentation of comparative information related to 2021.	Consumable biological assets must be properly adjusted.
(d)	In the conversion year, 5,364 rubber trees valued at Rs. 22,224,393 were sold in Millawana and Hapugaspitiya estates, but the cost was not deducted from the bearer biological assets balance, so the bearer biological assets balance was overstated.	At the time of the transfer from the Sri Lanka State Plantation Corporation to the Elkaduwa Plantation Company in 1993, it has not been possible to identify the cost of the old rubber trees. Costs related to the 5,364 rubber trees cut down have not been able to be separated from the host biological assets and reduced from the assets value.	When selling bearer biological assets, the cost thereof should be accounted for less the asset value.
(e)	According to the financial statements, the fixed deposit interest receivable value as on December 31, 2021 was Rs.7,437,950, but according to the audit calculation, it was Rs.3,532,861, so the receivable balance was overstated by Rs.3,905,089.	The relevant corrections will be made in the accounts of the year 2022.	The receivable interest income related to the financial year should be correctly accounted for.
(f)	In the current accounts maintained for the exchange of money/goods between the company's head office and the estates, a balance of Rs.25,397,432 which was not offset against each other had been deducted from the current liabilities as related party accounts, the current liabilities had been understated by that amount.	Since 2012, the balances that have not been offset against each other in these current accounts will be corrected as far as possible.	The financial statements should be prepared after making the necessary adjustments in the transactions between the head office and the estates through the current accounts.

(g)	In the Trade and other receivable balance of the company as on 31st December 2021, the recovery of the debtor balance of Rs. 15,270,235 from the head office, which has exceeded 03 years, was uncertain, but the company had not made any provision for the said debtor balance.	Audit observations on debtor balances over 3 years at head office have been agreed upon.	Provision should be made in respect of doubtful debtor balances and action should be taken promptly to recover the receivable balances.
(h)	Although a tax liability of 10 percent should be recognized for investment assets, by calculating as 14 percent, Rs.97,313 more and because the tax liability of Rs.501,071 for lease income was not recognized, the tax liability to be paid was under-calculated by Rs.403,758.	In the tax calculation of the year under review by the company, the rent and lease income from the leasing of buildings and land has been calculated as income generated from the business activities of the company.	Tax on investment interest and lease income should be calculated as per the Inland Revenue Act.

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 Balance	83,388,676	86,730,394	3,341,717	Investment assets in fixed deposits are recognized in the accounts at the end of the accounting year and the balance is updated on the maturity date of the fixed deposit. Notices for renewal of fixed deposits are issued on their maturity dates but the value to be had at the end of the accounting year is indicated therein.	Fixed deposit value should be correctly accounted for.
(b)	Interest payable-Chillaw Plantation	17,286,097	17,919,452	633,355	The accuracy of the difference disclosed by the auditor will find and make appropriate corrections.	Interest payable must be correctly accounted for.

1.6. Accounts Receivable and Payable

1.6.1. Receivables

Audit Issue	Management Comment	Recommendation
Staff loans included in trade and other receivable balances amounted to Rs.1,456,203 as on 31 December 2021, in which there was a balance of Rs.548,746 due to three employees who left the service two years ago.	This balance includes the staff loan due from three officers who resigned/removed due to disciplinary action. However, the gratuity due to them has not been released till now and the staff loan due by them will be recovered from the respective gratuity amount.	Debtor balances due from officers should be recovered before leaving service and unsettle debtor balances should be recovered promptly.

1.6.2. Payables

	Audit Issue	Management Comment	Recommendation
(a)	In the trade and other payable balance of the company, over 03 years trade and other payable balance of the head office as on December 31, 2021 is Rs. 36,367,067 and between 01 and 03 years Rs. 15,348,087, but the company has not yet settled the balance.	Audit observations on creditor balances over 3 years at head office have been agreed upon.	Adequate actions should be taken to settle the long term credit balances.
(b)	As on December 31, 2021, the interest payable on debentures and loans is Rs. 59,419,546 out of which Rs. 55,359,546 that is 93 percent of the balances due more than 3 years, but the company had not taken steps to settle these balances.	Due to the current financial difficulties of the company, it is not possible to settle the obligations to be paid by the head office as well as the estates and priority has been given only to settle the statutory obligations. However, other liabilities will be settled from time to time on receipt of additional funds.	Adequate actions should be taken to settle long-term loan and debenture interest.
(c)	The payable balances to Sri Lanka State Plantation Corporation and Janatha Estate Development Board respectively Rs. 1,768,749 and Rs. 1,185,670 had not been settled by the company for more than 5 years.	Due to the current financial difficulties of the company, it is not possible to settle the obligations to be paid by the head office as well as the estates and priority has been given only to settle the statutory obligations. However, other liabilities will be settled from time to time on receipt of additional funds.	Adequate actions should be taken to settle the long term loan balances.

(d)	The company contracted to settle in 03 years loan received from Chillaw plantation company in the year 2010 Rs. 20,000,000 and 8 percent annual interest of Rs. 17,919,452 including Rs. 37,919,452 had not been settled for more than 10 years.	The company has started paying the arrears in a systematic manner. However, since more priority has been given to the statutory payments to be paid, it is accepted that the payment of the amount due to Chillaw Plantation Company has been delayed and it will be discussed with the relevant institution in the future and expected to be paid in installments.	Adequate actions should be taken to settle the long term loan balances.

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

		Non-compliance	Management Comment	Recommendation
(a)	**Reference to Laws, Rules Regulations etc.**	Since the payment of premiums was not made by the company as per the referred regulations, along with the surcharge amount to the Employees' Trust Fund Rs. 28,948,985 and to Employees Provident Fund Rs. 276,416,074 and to Estate Staffs' Provident Scheme (ESPS) Rs. 9,603,595 and to Ceylon Planters' Provident Scheme (CPPS) Rs. 17,343,877 also remained payable end of the review year.	Due to insufficient cash flow since the opening of the company, the company has failed to settle the statutory payments to the employees in a proper and systematic manner. Efforts have been made to settle the arrears of statutory payments with the intervention of the Ministry of Lines and the financial contribution of the Treasury, but these arrears have failed to be paid in full. From 2022, the Employee Trust Fund payments will be made properly and from 2023, the statutory payments of Employees Provident Fund, Estate Employees Provident Fund and Gratuity Payments will continue.	A formal program should be prepared to settle the statutory obligations properly.

(b)	Section (5) (1) of Part 02 of the Payment of Gratuity Act No. 12 of 1983	Although the gratuity owned to the employee should be paid within 30 days from the date of retirement or death of an employee, due to the failure of the company to pay the gratuity on the due date, the amount of gratuity payable since 1996 was Rs. 171,873,551 as on 31 December 2021. A surcharge of Rs.51,562,065 should have been paid by the end of 2021.	Efforts have been made to settle the arrears of statutory payments with the intervention of the Ministry of Lines and the financial contribution of the Treasury, but these arrears have failed to be paid in full. From 2022, the Employee Trust Fund payments will be made properly and from 2023, the statutory payments of Employees Provident Fund, Estate Employees Provident Fund and Gratuity Payments will continue.	A formal arrangement should be made to pay the statutory obligations properly.

1.8. Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
According to Section 126 of the Inland Revenue Act No. 24 of 2017, the tax report containing relevant information should be submitted to the Inland Revenue Department, but the 2021/2022 income tax report related to the assessment year 2021 had not been submitted to the Inland Revenue Department by 31st July 2024.	We hope to submit the annual tax returns to the Inland Revenue Department from 2024 on time. The annual tax returns for the years 2021, 2022 and 2023 will be submitted to the Inland Revenue Department as soon as possible.	Tax returns should be submitted as per the provisions of the Inland Revenue Act.

2. Financial Review

2.1. Financial Result

The operating result of the reviewed year was a profit of Rs.323,026,549 and correspondingly the profit of the previous year was Rs.36,165,996. Accordingly, an increase of Rs. 286,860,553 was observed in the financial result. Compared to the previous year, this growth was mainly due to the increase in rubber and coconut sales income by Rs.23,894,994 and Rs.13,113,897 respectively and the increase in profit by Rs. 318,364,428 from the valuation of consumable biological assets of the company.

2.2 Trend Analysis of major Income and Expenditure items

Income	2021 (Rs.)	2020 (Rs.)	Variation (Rs.)	Percentage of variation (%)
Tea	213,410,011	220,469,024	(7,059,013)	3
Rubber	54,670,608	30,775,614	23,894,994	78
Coconut	52,680,329	39,566,432	13,113,897	33
Expenditure				
Administrative Expenses	53,418,386	53,819,175	400,789	1
Other Expenses	333,670	1,418,025	1,084,355	76
Finance Expenses	11,503,017	15,945,131	4,442,114	28

2.3 Ratio Analysis

(a) The current asset ratio of the year under review and the previous year was 0.3 : 1 and 0.24 : 1 respectively and the quick asset ratio was 0.29 : 1 and 0.23 : 1 respectively. Being the value of trade and other balances of payable Rs. 469,754,239 and Rs. 389,951,200 respectively and increased the value of current liabilities, had been mainly attributed to the deterioration of current asset ratio and quick asset ratio.

(b) The gross profit of the year 2020 was Rs.5,500,955 and correspondingly the gross loss of the year under review was Rs.37,767,383 but with the increase of 530 percent in the profit on valuation of consumable biological assets, the net profit ratio of 12 percent in the year 2020 had grown to 98 percent in the year under review. .

3. Operational Review

3.1. Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The actual tea yield was 53 percent less than the estimated tea yield of 2021 and the tea yield of each estate had decreased by 39 percent to 65 percent.	The estimated tea crop of 2021 could not be harvested due to the factors such as acute shortage of chemical fertilizers in the market, ban on the use of chemical herbicides and heavy rains making it very difficult to control the weeds in the field, the percentage of very old tea plantations with less productivity in the company exceeds 90 percent, the reduction in operations due to the Covid epidemic and the damage of the tea tree stem borer.	Through proper management of tea cultivation, efforts should be made to increase the yield of tea leaves.
(b)	According to research published in June 2021 by the Faculty of Management and Finance of the University of Colombo, although the standard latex yield per hectare in 2021 was between 800 and 1000 kg, the figure of the company was between 326 and 711 kg. The fact that the rubber plantations that have exceeded their effective life time were removed and not used for new plantations had caused the decrease in the productivity of latex.	73 percent of the company's existing rubber plantations are unproductive seed rubber plantations with a life time of more than 60 years, while the percentage of productive grafted rubber plantations is as low as 27 percent. Due to the heavy rains in 2021, it was unable to cutting latex for 110 days in Hapugaspitiya estate, 124 days in Nalanda estate and 110 days in Millawana estate had also been a factor in reducing rubber productivity.	Steps should be taken to increase the production of rubber through more effective new rubber cultivation and grafted rubber cultivation.
(c)	Although the industry standard for fallen coconuts is 5 percent, the company's actual coconut yield in 2021 is 1,060,867 and the number of fallen coconuts is 316,618, which is an increase of 25 percent over the standard.	21,330 or 70 percent of the coconut trees in the Millawana estate are over 40 feet tall, with a large number over 60 feet. In these estates coconuts are plucked by crooks and the maximum height that can be plucked is limited to 60 feet. Currently, due to lack of coconut pickers and reluctance to climb tall coconut trees, the rate of coconut fall has continued to rise. Due to the covid 19 pandemic, the country had to be shut down from time to time, the inability to bring in contractors to pluck coconuts has led to an increase in the number of coconuts falling.	The percentage of fallen coconuts should be minimized through proper management of coconut picking.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Although the annual financial statements and draft annual report approved by the Director Board must be submitted to the Auditor General within 60 days after the end of the financial year, the financial statements for the year 2021 were submitted to the Auditor General on 14th June 2024 and the draft annual report has not been submitted for audit till now.	We agree with the observations of the auditors and due to the unavoidable reasons faced in the face of the Covid-19 pandemic, it has not been possible to submit the final financial statements for the years 2021, 2022 and 2023 to the audit on the due date. As soon as the audit report of the year 2021 is received, we hope to submit the draft annual financial statements for the year 2022 and 2023, which have already been approved by the Board of Directors, to the Auditor General. Furthermore, the annual financial statements approved by the Board of Directors for 2024 are still being prepared to be submitted to the Auditor General on or before the due date.	Annual financial statements and draft annual reports should be submitted for audit by the due date.