

Kurunegala Plantations Limited - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Plantations Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material 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 intends 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; 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 with reference to the relevant standard	Comment of the Management	Recommendation
Since useful life of current assets had not been reviewed in terms of Paragraphs 51 and 61 of Sri Lanka Accounting Standard 16 relating to property plant and equipment, computer, accessories and furniture costing Rs. 3,379,350 , Rs.11,236,614 and Rs.5,117,452 respectively were further in use by the end of the year under review despite being fully depreciated. Nevertheless, action was not taken to revise that error in the estimate and state the correct carrying amount in the financial statements in terms of Sri Lanka Accounting Standard 08.	Although it is required to annually review the useful life of the non-current assets, the Company found practical difficulties in implementing this as a policy given the situation prevailed in the country. In addition, there is no market value of these assets. Further, the Company has to spend a massive additional cost to restore and revalue these assets.	The carrying amount of fully depreciated assets should be revised and correct value should be shown in the financial statements

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
Approval of the Ministry of Plantation or the Treasury had not been obtained for the decision taken by the company to suspend the payment of lease from the year 2009 that should have been paid to the General Treasury in relation to 1,751 hectares of lands released for various purposes of the Government from the lands leased to the Kurunegala Plantation Company for cultivation purposes. The lease rent of Rs. 233 million payable relating to the above extent of land had not been paid even by the end of the year under review contrary to the lease agreement.	The company has paid tax instalments without arrears. The company is a registered company and therefore, it has a legal personality. The Board of Directors has, at its meeting held on 24 December 2013, decided to pay tax instalments only for the lands occupied by the company. This matter has been discussed with the Treasury and the Secretary to the Ministry of Finance. Nevertheless, necessary guidance has not been received.	Lease rent should be paid in accordance with the agreement and amendments to the agreement should be made on a proper approval.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.Mn	Audit evidence not furnished	Comment of the Management	Recommendation
Property, Plant and Equipment	45.6	The company lacked relevant deeds for 18 estate divisions of 1,621.3 hectares with a value of Rs.45.6 million shown under the property, plant and equipment in the statement of financial position. As a result, it was unable to establish the legal right and the clarity of the lands to the company.	Even though 17 estate divisions have been stated without deeds, there is a deed for the Sapugasovita Division of the Attanagalla Regional Estate. Accordingly, deeds should be obtained only for 16 divisions on completion of their surveys. Of those divisions, surveys on Kurakkana and Imbulangoda are in progress at present.	Deeds in relation to the leased lands should be prepared.

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

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the management	Recommendation
Paragraph 01 of (i) Circular No. DNS/A/8/27 dated 26 May 2009 of the Department of Management Services	A sum of Rs. 13,179,028 had been paid as employee allowances convertible into cash for the officers working in the HM, MM and JM salary categories of the Company during the year under review. Approval of the Board of Directors alone was obtained for this payment and approval of the Treasury was not obtained as per the circular provisions.	This labour allowance is an entitlement provided for the Executive Officers since the inception of the Company and this entitlement has been given physically as the labourers in the past. It is paid in cash from the year 2010 according to a decision of the Board of Directors.	Approval of the Treasury should be obtained as per the referred circular to make this payment.
	(ii) In the payment of Rs. 8,669,745 to the officers of the Company as medical allowances during the year under review, it had been done only upon the approval of the Board of Directors without obtaining approval from the Treasury.	This allowance is 10 percent of the salary for the other officers and it is a fixed payment of Rs.4,000 for the executive officers.	Approval of the Treasury should be obtained as per the referred circular to make this payment.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a profit of Rs. 468,604,709 as compared with the corresponding profit for the preceding year was Rs. 214,946,751, thus observing an improvement of the financial result by Rs. 253,657,958 or 118 percent in the year under review compared to the preceding year. Sales income had increased by Rs. 247,542,748 and the corresponding increase in the sales cost only by seven decimal per cent had directly contributed to this improvement in the financial result.

2.2 Ratio Analysis

- The current ratio and the quick assets ratio by the end of the year under review stood at 1:6.14 and 1: 5.52 respectively and that values in the preceding year were 1:5.84 and 1:5.35 respectively.
- The gross profit ratio in the year under review was 56 per cent and in comparison with that ratio of 40 per cent in the preceding year, the gross profit ratio had increased by 16 per cent.
- The net profit ratio in the year under review was 48 per cent and the net profit ratio had increased by 21 per cent than that of the preceding year in relation to the gross profit ratio.

3. Operational Review

3.1 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
Out of 129 hectares of paddy lands owned by the Company, 37 hectares had been given on lease basis and tenant basis for Yala season and 31 hectares for Maha season in the year 2021. It was observed that 61 hectares of paddy lands remained idle without further being utilized for cultivation activities.	Although there are 129 hectares of paddy lands according to the records of the Company, it does not own such extent of lands. The failure to carry out survey on the lands when transferring them to the company and lack of correct data regarding the extent of lands released to the tenant farmers have been the reason for that matter. According to the G.P.S. survey carried out by the Company, an extent of 43.19 hectares of lands has been discovered.	Lands owned by the Company should be correctly identified and having identified the underutilized lands, action should be taken to cultivate such lands.

3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Although “ Directing the value added production of the Company to the market for export trade” had been mentioned as the 03 rd target of the business plan and a sectoral	Due to the Covid epidemic situation prevailed in the country and the other countries in the years 2020/2021, it was not possible to direct the value added productions to the market. However, discussions are now in progress in order to	Action should be taken to achieve the targets in the business plan.

target of the Action Plan from the year 2020, it was observed that action towards the that end had not been commenced even in the year 2021. explore the export market.

3.3 Delays in the projects or capital works

Audit Observation	Comment of the Management	Recommendation
Although plans had been drawn to commence 9 new projects as value addition and other projects for coconut in the Corporate Plan, 2020, only two of those projects were implemented by the end of 2021. In addition, it was observed that a turmeric powder production project which had not been planned in the year 2021 was being implemented.	Nine value addition projects should have been implemented according to the Corporate Plan, whereas these projects were not implemented as it was not possible to earn an adequate profit therefrom amidst the sales difficulties found under the Covid 19 situation prevailed in the country and the other countries in 2020-2021. However, all basic arrangements have been completed to initiate a coconut oil production factory and cinnamon oil factory to extract oil from cinnamon leaves in the year 2022 and productions of those factories are envisaged to start in the year 2023. Further, initial arrangements for the construction of water bottling manufactory have also been completed.	Action should be taken to commence new projects by making ammendments to the Corporate Plan and action should be taken to make those projects successful.

3.4 Operating Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) According to the budget report of the company, an other operating income of Rs. 81.4 million was anticipated for the year 2021 and the actual amount earned was Rs. 76.4 million. Accordingly, an unachieved other operating income of Rs.5 million was observed.	The sale of coconut and rubber trees was very low due to the Covid epidemic situation in the year 2021 and the prices received therefor as well remained at a low level. Further, given the fertilizer shortage prevailed in the country, demand for the leasing of paddy lands also declined.	Action should be taken efficiently and effectively to achive the anticipated level of income.
(b) Even though the Company expected an income of Rs.65 million from additional crops in the year 2021 as per the budget report of the Company, the actual achievement was Rs.58 million. It was 11 per cent decrease compared to the expected value.	A favourabe price could not be obtained due to the Covid epidemic situation prevailed in the country in the year 2021 and the heavy precipitation resulted in drastic decline in the cashew and Rambutan yield and the sale.	Action should be taken efficiently and effectively to achive the anticipated level of income.

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| (c) | Although it was expected to produce 134,800 Kg of rubber for the year 2021 according to the Action Plan, the actual production was 91,743 kilograms and it was 32 per cent decrease of the production than the expected quantity. The rubber production in the year 2020 amounted to 107,088 kilograms and accordingly, the decrease of the production in the year 2021 was 14 per cent. | The number of wet days in the year 2020 was 109 and it was 139 in the year 2021, thus recording an increase in 28 per cent. Precipitation too had recorded 1,158 mm increase compared to the year 2020. Accordingly, the number of days capable for rubber tapping had decreased, thus shrinking the yield. The removal of old trees had resulted in the decrease of the yield. | Action should be taken efficiently and effectively to achieve the anticipated level of production. |
| (d) | The Audit observed 330,488 coconut husks with a sales value of Rs. 991,464 belonging to the year 2021 in the Attanagalla Estate and they had decayed beyond sale. | Due to the Covid epidemic situation prevailed in the year 2021 and the fuel crisis in the year 2022, the coconut industry became inactive and as a result, these coconut husks had decayed to such an extent that they were no longer in a condition to be sold. Similarly, action has been taken to use these coconut husks as much as possible to establish Husk pits within the cultivation and to mulch the coconut trees in the years 2022 and 2023. | Necessary action should be taken to timely and efficiently earn sales income related to the coconut industry. |
| (e) | Due to the rapid decrease in rubber prices in 2019, the rubber manufactory was shut down, and production was not resumed even though prices increased in 2021. Although a coconut treacle production programme was started using a part of the factory in 2021, the project remained inactive at the time of the audit. As a result, it was observed that the rubber manufactory had become a completely idle asset. | The price of rubber has not yet stabilized. However, coconut treacle production has been initiated using this factory. Arrangements have been made to start cinnamon production on the upper floor of the factory. | Assets should be used efficiently and effectively and income should be increased through the production diversification. |

- (f) The Kithul and coconut treacle extraction project was started in July 2021, and the company had not carried out a feasibility study before commencing the project or made any forecast of the project's income and expenditure. This is a small experimental level project and an income of Rs. 178,000 has been earned by August 2022. Projects should be started only after conducting a proper study and an analysis.

3.5 Procurement Management

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) According to Guideline 4.2.1 of the Government Procurement Guidelines, the Master Procurement Plan should be prepared for a minimum of three years and regularly updated within a period of not more than six months. Afterward, the detailed procurement plan for the coming year should be prepared. However, the company had failed to prepare and submit a procurement plan.	Since our institution mainly engages in agricultural activities, it is not practically possible to update the main procurement plan prepared for a three-year period within a period of six months. Therefore, we update only the procurement plan for the relevant year (2021) within a period of six months.	The Master Procurement plan should be prepared in an updated manner in terms of 4.2.1 of the Government Procurement Guidelines
(b) According to Guideline 5.4.8 of the Government Procurement Guidelines, a performance security of not less than 5 per cent of the estimated value should be obtained for a work contract. However, the company had not taken steps to obtain a performance security in the installation of the micro water supply system for the Dodamgaslanda Estate at a cost of Rs.4,564,938 under Procurement No.P/HO/53/2021.	Although a performance security was not obtained for this procurement, the two parties signed an agreement that included clauses to ensure proper completion and handover of the contract. After preparing the contract, it was duly handed over to the Estate on 10 November 2021. A two-year guarantee certificate has been received, and the retention money has been settled at present.	A performance security should be obtained in terms of Guideline 5.4.8 of the Government Procurement Guidelines and agreements should be entered into as per the Guideline.
(c) Although the limit of using shopping method for work shall be Rs.10 million according to Guideline 3.4 of the Government Procurement Guidelines, the shopping method had been used in the installation of micro water supply system at a cost of Rs. 10,986,882 for the Kurunegala Estate under the Procurement No. P/HO/129/2021.	We forecated that this procurement could be carried out at an amount less than Rs.10 million and accordingly, we used the shopping method for this procurement.	Action should be taken in accordanc with Guideline 3.4 of the Government Procurement Guidelines.

3.6 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
Although only 07 estates are functioning instead of 10 estates previously operated under the Company, the approved cadre of 267 for the Kurunegala Plantation Company has been continuously maintained in terms of Letters dated 16 September 2011, 16 November 2016 and 16 December 2016 of the Department of Management Services.	Although 10 estates were functioning at the time of approving the cadre of the Kurunegala Plantation Limited, due to the strategic management decisions subsequently taken to amalgamate divisions of the estates, it is currently operated under 7 estates. Hence, the vacancies of the posts approved relating to the amalgamated divisions were not revised considering that they would be necessary for the future development activities.	Approved cadre should be properly reviewed and revised.

4. Accountability and Good Governance

4.1 Business Plan

Audit Observation	Comment of the Management	Recommendation
In terms of Public Enterprises Circular No.12 dated 02 June 2003 and Section 5 (2) of the Public Finance Circular No.01/2014 dated 17 February 2014, an Action Plan should be prepared including the commercial activities expected to be implemented in the ensuing financial year based on the business plan. According to Section 5.1.3 of the aforesaid Public Finance Circular, the said business plan should be prepared 15 days before the beginning of the financial year and submitted to the Auditor General after the approval of the Board of Directors. However, the business plan prepared for the years 2021-2025 had been approved by the Board of Directors on 27 January 2021 and submitted to the Audit on 23 June 2022.	It is informed that these measures will be taken in the ensuing years.	Preparation of business plan and submission of the same to the Auditor General should be done in accordance with the referred circulars.

4.2 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
After preparing the business plan, an action plan should be correspondingly prepared annually to achieve the set targets. An annual performance report should also be prepared in accordance with the action plan to evaluate its progress. While the performance reports relating to target 01 and 02 of the corporate plan were submitted to the Audit, reports relating to targets 03,04 and 05 were not submitted.	It is informed that when submitting performance reports in the future, progress of all the targets in the business plan also will be submitted.	Progress reports should be prepared in line with the annual action plan and furnished to the Audit.

4.3 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
As per Section 5.2.5 of the Public Enterprises Circular No.12 dated 02 June 2003, the budget should be prepared and submitted to the Line Ministry, Public Enterprises Department, General Treasury, and the Auditor General 15 days before the beginning of the financial year with the approval of the Board of Directors. However, the budget prepared for the year 2021 was approved by the Board of Directors on 27 December 2020 and submitted to the Audit on 23 June 2022.	It is informed that action will be taken to duly submit this budget in the future.	The preparation and submission of the budget to the Auditor General should be carried out in accordance with the circular referred to.

4.4 Other

Audit Observation	Comment of the Management	Recommendation
Surveys had been completed for 69 out of 87 estate divisions belonging to 6,722 hectares of land on the date they were acquired by the company. The surveys revealed a shortfall of 522.86 hectares of land in 51 estate divisions and an excess of 77.66 hectares in 18 estate divisions.	It has been informed that the difference between the extent of land provided by the Janatha Estate Development Board and the extent of land determined in the surveys will be calculated upon completion of surveys for all estate divisions.	Once all surveys are completed and the correct extent of lands is determined, it should be included in the financial statements.