

**1. Financial Statements**

**1.1 Unqualified Opinion**

The audit of the financial statements of the Gal Oya Plantation (Private) Limited Company for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

**1.2 Basis for Unqualified Opinion**

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 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 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**

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.

## 2. Financial Review

### 2.1 Financial Result

- (a) The operating result for the year under review was a profit of Rs.5,649,161 and the corresponding profit for the previous year was Rs.2,005,792. It was observed that an increase in profit of Rs. 3,643,369 compared to the previous year.
- (b) The administrative expenses of the company had increased by Rs.847,344 or 87.15% percent in the year under review compared to the previous year, while the financial expenditure had decreased by 25.53 percent from Rs.1,405,681 in the previous year to Rs.1,764,593. As a result, the company's gross profit increased from Rs. 4,677,882 in the previous year to Rs. 8,427,866 in the year under review by Rs. 3,749,984 or 80.16% percent and there was a net profit of Rs.5,649,161 in the year under review.

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| (a) According to the report issued by the Independent Assessor on Fixed Assets, the damaged, to be repaired and agreed to be demolished non current assets value was Rs. 93,650,000 on 31 March 2023. Action had not been taken to sell or repairs these non-current assets.   | Most of machines currently in running condition and already started repairing process of rest of machineries. We expect to get complete repairing process at our earliest and will be used them back to operation.   | Actions to be taken to repair and use for operation.   |
| (b) According to the information provided by the company, it was paid Rs.258,698 for assessment tax to the Damana Pradeshaya Sabha in 2022/2023 assessment year. It was observed that out of the 233 official quarters which are to be provided for the employees of the Company out of 211 official residences are occupied by unauthorized families. The Company had not taken legal action against the occupant and action had not taken to take over them. | As per the local authority requirements, taxes related to the quarters and other buildings mentioned in the shareholder agreement, which have calculated by the Pradeshhiya Sabha have been paid. However, majority except few quarters had been encroached by civilians for long period, even before the signing of shareholder agreement. However, land lease agreement for highlands including these quarters have not been signed until now. Therefore, as advised by the company lawyer, taking a legal action for these quarters will be a negative impact. Signing of land lease agreement is under process and, once signed will take legal action for these quarters. | Necessary action needs to be taken to take over the houses, signing of land lease agreement and, once signed to take legal action for these quarters by the company. |

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|---|--|--|
| <p>(c) The management had not been able to pay or write-off of Rs 35,191,312 outstanding for more than 5 years with regard to 06 contractors and suppliers. And also, the reasons for delay of payment had not been submitted to audit by the Management.</p>   | <p>The company was not received proper invoices to settle these dues. However, suppliers were confirmed their dues recently and yet to be paid to them. But currently the company face some cash tide due to factory expansion project and once the cash flow improve, supplier bills will be paid accordingly.</p>  | <p>Action needs to be taken to pay or write-off the outstanding balances applying due process.</p> |
| <p>(d) According to the financial position as at 31 March 2023, the balance due from the farmers was Rs.75,912,550, of which Rs.33,770,276 and Rs.21,710,893 were outstanding for more than 03 years and 05 years respectively. Moreover, the Company has not been able to provide the details of those outstanding balances.</p> | <p>Required details already provided to auditors for their perusal. In addition to that the company was able to recover Rs. 10 Mn out of 75.91 Mn dues as of 31 st October 2023. Further the company is continuously monitoring the long dues and unsettle balances on regular basis. Recovery details of said outstanding is tabulated below for your easy reference.</p> | <p>Prompt action needs to be taken to recover the outstanding loan balances from farmers.</p>      |

### 3.2 Operational Inefficiencies

#### Audit Issue

- (a) The Procurement Guideline published by the Extraordinary Gazette date of 09 May 2018 and the corresponding procurement manual, the company had developed its own Procurement Guideline on 05 September 2018, for which a document confirming the approval of the Board of Trustees had not been submitted for audit.

Although e-procurement is not permitted in the aforesaid Government Procurement Guideline and Manual, if the purchase value exceeds Rs.1,000,000 the bids should be called for and obtained thorough post Contrary to that the company was permitted the e-procurement sub section 3.2 of their guideline. It was observed that during year under review, a sum of Rs.

#### Management Comment

The stated procurement guideline has been formed on 2018 and at that time, the prevailing commodity prices and economic conditions were considered. However, the unforeseen onset of the COVID-19 pandemic in 2019 brought about an unpredicted disruption, leading to a nationwide economic shutdown and a rapid escalation in the prices of goods and services and the shortage of goods in the market too. Consequently, all services, including the essential registration mail service, were temporarily disabled due to travel restrictions and other effects due to pandemic situation.

In light of the aforementioned challenges, executing purchases via registered mail from suppliers became a challenging task. Consequently, the institution's

#### Recommendation

Action needs to be taken to comply with Government Procurement Guideline and Manual.

55,084,923 worth of 10 numbers of goods valued above Rs.1,000,000 are procured through e-procurement.

management made a resolute decision to persist in its operations despite these barriers. The management has decided to switch to electronic media as a viable alternative due to unavailability of postal department service during the pandemic period. Compounded by the economic downturn and the resultant depreciation of the rupee, sourcing essential items for the seamless functioning of the institution within the requisite timeframe became exceedingly challenging. Recognizing the urgency, the approval has been granted by the management to obtain quotations through an electronic media within the limit of 1 million rupees. The company has recently updated its procurement guideline to better fit the current economy and prices. The board of directors has given their approval for these changes, ensuring that the institution can make purchases in a way that aligns with present economic conditions.

(b) Although it was planned to earn Rs. 84,218,310 and Rs. 14,760,000 as income from solar power generation and carbon dioxide generation (CODS) respectively during the year under review, only Rs. 7,796,655 was earned from solar power generation and no income was generated from carbon dioxide generation (CODS) during the year under review.

It was planned to complete the solar project by July, 2022 and export 3,828,105 units of solar power generation to the national grid at the rate of Rs.22 and earn Rs 84,218,310 for the financial year 2022-23. However, once the project commenced there were number of incidents took place, which caused delays in project implementation. Out of them, the economic crisis in the country, so many government restrictions were severely affected to LC opening and the LC/TT payments. As the result, most of the import items were not received to the site on time. Further shortage of fuel availability in the country was

Action needs to be taken to increase the income from solar power generation and carbon dioxide generation (CODS).

affected to the transportation of staff as well as materials on time and caused delays in the implementation program. Therefore, the project was delayed and unable to export the solar power to the national grid as predicted. However, the project was completed by the end of November, 2022 and commissioned on 23rd of December, 2022 after the tariff revision. Therefore, we were able to sign the agreement with Ceylon Electricity Board (CEB) to export solar power to the national grid at the rate of Rs 34.50. Carbon dioxide plant installation was started in June of 2022. However, 75% of plant erection work has been completed. Commissioning will be finished in end of January 2024.

(c) Although the Company to be maintained a formal inventory management system to manage all stock receipts and issues, the ERP system presently used by the Company is not capable of generating inventory age analysis reports. As such, it was observed that, it could not identify obsolete, slow-moving and non-moving items separately.

The company is using Sage Accpac accounting system since 2008 without upgrading. The existing system doesn't cater the company requirement and couldn't provide the MIS data and reports. The staff is wasting more time to analysis some MIS data and prepare report to management purpose. Currently, the company started to implement a new ERP system (SAP One) and implementation on progress.

Prompt action need to be taken to implement the new ERP system.

(d) According to Note. 2.5 (a) to the financial statements, it was stated that the Management reviews the estimated useful lifetime of depreciable Property, Plant and Equipment (PPE) at each reporting date based on the expected utility of the assets. However, fully depreciated assets approximately valued at Rs. 61.6 million are being continuously used by the Company without reassessing the useful economical

The company review estimates useful life time of each asset inclusive fully depreciated assets. Any significant changes found; it would be adjusted to financials and disclose under LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors accordingly. However, the company spent significant amount to repair and maintenance of these fully depreciate assets annually and those cost charged to statement of

Action needs to take to comply with the Provision stated in LKAS 16 and LKAS 08.

lifetime of those assets as per the provisions in paragraph 51 of Sri Lanka Accounting Standard (LKAS) 16 – Property, Plant and Equipment. Rectifying the estimation error and showing the accurate carrying value in the financial statements as per the LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors had not been done.

comprehensive income.