

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 and Companies Act No. 07 of 2007. 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, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 based 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 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 Responsibility 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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. 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

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Accounting Standards	Comments of the Management	Recommendation
<p>In terms of paragraphs 51 and 61 of Sri Lanka Accounting Standard 16 on property, plant and equipment, the useful life of non-current assets had not been reviewed annually and as such, action had not been taken by the Company to revise the estimated fault in terms of the Sri Lanka Accounting Standard No. 08 even though the assets such as costing of office equipment, furniture and water supply Rs. 24,666,125, Rs.16,326,565 and Rs.1,631,448 respectively fully depreciated by the year under review were still being used by the company, and to indicate the accurate carrying amount thereof in the financial statements.</p>	<p>Depreciation had been recognized in the statement of comprehensive income using the straight line method on cost. Even though the net book value of the assets like office equipment, furniture and fittings, machinery purchased before 1992 received from the JANAWASAMA (JEDB) at the time of establishment of the company, had been entered to the books of the company, these values have not been recognized separately, and fully depreciated assets such as computers, equipment and furniture are still being used by the company. Even though valuation of these assets is a costly task, a committee has been appointed by the management for these tasks giving due attention for finding out the same.</p>	<p>Action should be taken to revise the carrying amount of fully depreciated assets according to the useful life and to indicate its accurate amount in the financial statements.</p>

## 1.5.2 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
(a) It was observed that the surveying of 18 estate divisions out of the 85 estate divisions owned by the company had been completed, and there is a difference of 378.9432 hectares between the hectare size of the 18 estate divisions and the hectare size according to the related lease agreements. Therefore, the audit observed that the value of land in the statement of financial position had been overstated by Rs.8,521,385.	The cadastral mapping of 18 estate divisions out of 85 estate divisions owned by the company has been completed, and there is a difference of 378.9432 hectares between the surveyed land extent and the land extent in the lease agreement. After completion of surveying of all estate divisions, all variations recognized will be adjusted accordingly.	Lands should be surveyed and accordingly arrangements should be made to include accurate land values in the financial statements.
(b) A difference of 603.8 hectares was observed between the extent in hectares related to the lands according to the lease agreements and the extent in hectares identified according to the financial statements of each estate.	No plans were provided for the lands during the transfer of the JANAWASAMA (JEDB) lands, and there is a possibility of large variations in surveying such lands, and all the identified variations will be properly adjusted after completion of surveying as land surveying is currently being carried out.	Land surveys should be done and accordingly arrangements should be made to include the accurate extents in the financial statements.

## 1.5.3 Lack of written Evidence for Audit

Item	Amount (Rs. Million)	Audit Evidence not made available	Comments of the Management	Recommendation
Property, Plant and Equipment	104.5	Deeds and plans relating to 67 state divisions	Surveys of 18 out of 85 estate divisions had been completed by the Survey Department through the Ministry of Plantations. Even though no plans are available for the remaining 67 estate divisions, there are valid lease agreements to confirm boundaries and ownership. The JANAWASAMA (JEDB) has the absolute ownership of these lands and the company has lease ownership.	Land related deeds and plans should be prepared.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A debtor balance of Rs.1,114,325 belonging to the Palugaswewa estate had not been collected for over a year. Rs. 799,320 out of that amount is related to misplacement of goods confirmed by the physical stock verification of the sales center, and even though it is a 53.8 per cent of the total debts, measures had not been taken to settle the transactions related to the missing stock.	A formal investigation had been conducted on two employees regarding misplacement of goods confirmed by physical stock verification. There, the superintendent had been informed to take appropriate steps to recover money from the two employees and to take action to recover the remaining debtor balances of more than one year.	Measures should be taken to collect the debtor balances in due time and to recover losses from persons responsible for misplaced stock.

### 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>Comments of the Management</b>	<b>Recommendation</b>
Public Enterprise Circular No. PED 01/2015 dated 25 May 2015	Rs. 468,000 had been paid in the year 2022 as transportation allowance for 3 posts of MM 1-1 category and 6 posts of JM 1-1 category who are not entitled to receive an official vehicle, while Rs.662,400 had been paid in the year under review for 120 liters of fuel per month as fuel allowance to an officer in the MM 1-1 category who is not entitled to receive an official vehicle.	Measures had been taken regarding obtaining fuel according to the provisions in the Articles of Association under the Companies Act, as approved by the Board of Directors which includes the Treasury representative.	Fuel and transport allowances shall be given only to the officers entitled as per the circular.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 493,469,876 and the corresponding profit in the preceding year amounted to Rs. 631,978,959. Accordingly, a deterioration amounting to Rs. 138,509,083 of the financial result was observed compared to the previous year. The reasons for this were the decrease of income from the sale of coconut saplings and the income from the sale of cashew nuts by Rs. 39,550,906 and Rs. 122,322,772 respectively and increase in other expenditures by Rs. 22,086,947 compared to the preceding year.

## 2.2 Trend Analysis of Major Income and Expenditure Items

Description	2022 Rs.	2021 Rs.	Difference Rs.	Percentage of difference over/(under)
<b>Income</b>				
Income from sale of coconuts	882,287,388	801,718,449	80,568,939	10.05
Cashew from sale of cashew nuts	16,086,501	55,637,407	(39,550,906)	(71)
Income from sale of coconut saplings	19,923,682	142,246,454	(122,322,772)	(86)
Other Income	181,535,982	160,985,376	20,550,606	13
Financial Income	135,874,424	25,611,433	110,262,991	431
<b>Expenditure</b>				
Cost of sales	520,940,365	520,797,587	142,778	0.03
Administration and expenses	229,027,818	206,940,871	22,086,948	11
Financial Expenses	43,693,022	40,413,552	3,279,470.22	8
Income Tax Expenses	(20,411,125)	121,091,847		

## 2.3 Ratio Analysis

- The Current ratio and Quick Asset Ratio were 4:1 and 3:1 respective at the end of the year under review, and the said ratio was 3:1 in the last year. It was observed in the audit that the Current and Quick Asset Ratio ratios were high due to retention of Rs. 721,479,696 and Rs. 985,660,947 in short term fixed deposits and treasury bills in the year 2021 and 2022.
- The gross profit ratio was 46 per cent in the year under review, and the gross profit ratio had been deteriorated by 4 per cent compared to the 50 per cent ratio in the preceding year.
- The net profit ratio was 53 per cent in the year under review, and the net profit ratio had improved by 4 per cent compared to 49 per cent in the preceding year.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
Even though the company has no legal right to lend to other institutions, a total amount of Rs.105 million had been lent by the company to JANAWASAMA (JEDB), Elkaduwa Plantation Ltd, Sri Lanka State Plantation	Funds had been allocated by Chilaw Plantation Company to these government institutions in the year 2010 as financial facilities/loans for their essential financial activities as per the instructions of the then Secretary of the Ministry of State	The company should work with understanding of its powers and functions, and arrangements should be made to properly recover the loan amount and interest provided.

Corporation, Ministry of State Resources and Enterprise Development and Rubber Products Export Corporation in year 2010. Full provisions had been made in the financial statements for Rs. 119.758 million including the interest that has to be charged from the company in the year 2014 based on a decision of the board of directors of the company. Further, the total uncollectible loan amount including interest was Rs.183.758 million at the end of the year under review, and the value had been disclosed only in a note instead of being disclosed in the statement of financial position.

Resources and Enterprise Development and with the concurrence of the Treasury. Various attempts was made regarding the recovery of the respective loans since the year that loan had been provided. However, full provisions had been made for this by the financial statements of the year 2014 according to a decision of the board of directors of the company.

### 3.2 Operational Inefficiencies

Audit Observations	Comments of the Management	Recommendation
(a) The estimated cashew yield of the company in the year under review was 169,800 kg, and actual cashew yield was 63,532 kg. It is a decrease of 63 per cent compared to the estimated value. It was observed that the actual cashew yield of the year under review was decreased by 27,483 kg i.e. 30 per cent compared to the year 2021 since the actual yield in the year 2021 was 91,015 kg. Its' estimated value was about Rs.19,321,648.	The yield depends on the prevailing climatic factors. Most of the company's cashew plantations are in Puttalam district, and the district had received more rainfall in the first 03 months of the year 2022 compared to the year 2021. It was the main reason for low yield.	Measures should be taken to maintain the cultivation properly and plan to achieve high cashew yield.
(b) As a whole, 31.6 per cent of the total coconut yield of the company in year 2022 was received as fallen coconuts, and thus it was observed that there is a risk of misplacing and destroying the coconut yield by receiving a significant amount of the coconut yield as fallen coconut.	The reason for the increase in the number of fallen coconuts is the number of tall trees in the institution. Pickers are not used to harvest the coconut yield from these tall trees and harvesting is done by climbing the trees. High costs are incurred in harvesting coconuts from tall trees, thus, the production cost of 1000 coconut nuts can reach a high level.	The schedule prepared by the plantations for plucking coconuts should be properly implemented in order to obtain the coconut yield at the right time, and new techniques should be used in such a way that the cost is minimized.

- (c) In checking the age analysis of the company's coconut trees in the year 2022, it was also observed that the number of coconut trees over 20 years of age is 295,750, and it is about 72 per cent of the total number of coconut trees of the company. Similarly, it was observed that more than 90 per cent of the total cashew plantation is the trees over 20 years i.e. trees planted from year 1992 to year 2003. Also, when checking the data of the year 2022, the annual yield per cashew tree was as low as 1.21 kg (63,532/49,707). Accordingly, it was observed in the audit that the management of the company has not paid enough attention on the implementation of new cashew cultivation projects, proper maintenance of existing cultivation and obtaining high cashew yield.
- Measures has already been taken by the institute to implement the process of leasing cashew trees to provide the yield to private planters, and it is expected to minimize the expenses of the company and increase the production capacity through close monitoring and get more profit for the company. The relevant vacancies are currently being filled in order to maintain the number of cashew trees per hectare at a proper standard. Furthermore, the institute has made arrangements to properly manage the existing cashew cultivation projects and carry out related agricultural activities.
- It is the responsibility of the company management to manage the plantations in such a way that a maximum yield can be achieved.
- (d) According to the Technical Advisory Paper of the Coconut Research Institute of Sri Lanka (CRI) – 2020, the annual average yield of a coconut tree stands between 60 and 100 nuts ,and if it is considered as 60 nuts, the total annual yield for 396,098 productive trees in the year 2022 should be 23,765,880 nuts. However, the total yield of the Company for the year 2022 stood at 15,172,334 nuts. Accordingly, it was observed that the average annual productivity of a coconut tree has decreased to 38 nuts.
- Even though the temperature and rainfall are the main factors that determine the yield of the coconut tree, the number of female flowers produced in a coconut flower, the weather conditions of 02 months before the opening of the coconut flower, the effect of drought and temperatures related to the first 03 months after the opening of the coconut flower, as well as the number of nuts in other bunches of the tree and the suitability of the soil, agricultural maintenance, are caused for variables of coconut yield. Accordingly, crop variations are seen in the years 2021 and 2022.
- The management should take measures to find out the reasons for the abnormal decrease in normal coconut yield and take necessary measures in that regard.



- (e) 186.15 hectares of uncultivable land owned by the company had been forcibly acquired by various persons for village expansion and as unauthorized settlements. It was observed that even though legal measures had been taken for reacquisition only 89.16 hectares of land out of it, no measures had been taken to acquire the remaining 96.99 hectares of land in extent.
- The remaining 96.99 hectares of land for which no legal action had been taken so far are the incidents that have taken place even before we acquire this land.
- It is a responsibility of the company to take legal action to settle lands illegally occupied under leasehold.
- (f) The mining and restoration work of Himmaliyagara Estate owned by Chilaw Plantation Company had been terminated by the contractor by 31 December 2022. Therefore, it was not possible to complete the work within the stipulated time as per the agreement. No legal actions had been taken by the company regarding the breach of contract by the contracting party during the year under review, and no measures had been taken to complete the relevant work.
- The bilateral agreement made for the restoration of Himmeliyagarh hollow was not valid as at 31 December 2022, and necessary legal steps will be taken in this regard in the year 2023.
- Further steps should be taken regarding unfinished contracts in terms of the agreement.
- (g) The hollow restoration projects at Aklishiya and Madugasagara Estates were scheduled to be completed by 22 September 2021. Even though 03 extensions of the contract period were given till 31 December 2022, the works had not been completed by the end of the year under review also.
- Rehabilitation of Madugasagara hollow - The bilateral agreement remained in force by 31 December 2022. The rehabilitation works of the lake was also being carried out in the year 2023. Similarly, the Ecclesia Hollow reform agreement remained effective as at 31 December 2022. A decision regarding the bilateral agreement is to be taken in due course.
- Monitoring activities should be carried out in order to complete the hollow reform projects within the specified schedule and action should be taken regarding the violation of the terms of the agreement in accordance with the agreements.
- (h) Even though Rs. 6,413,006 had been spent by the end of year 2022 to maintain the Kapruwana seed coconut project established in year 2012 as an undergrowth of 58 hectares within the mature coconut plantation in the Kiniyama estate of Chilaw Plantation Company, no income had been earned from selling Kapruwana seed coconuts. Furthermore, the additional income received in the year 2022 only from selling Kundira and Sanraman varieties planted in connection with the
- Even though seed coconut production started in the year 2019 by hand pollination of 250 Kundira trees selected inside the seed coconut garden until natural pollination takes place, hand pollination was terminated in the year 2020 as per the instructions of the Coconut Research Institute due to the increase in red beetle damage and the weakening of Kundira trees. 100 coconut saplings belonging to
- Efforts should be made to make the Kapruwana seed coconut project a success.

Kapruwana seed coconut project is Rs.2,276,850. After adjusting the additional income with the cost, the audit observed that a further cost of Rs.4,136,156 has to be recovered.

the "Kapruwana" variety were produced in the year 2020 through the hand pollination, and measures had been taken to plant the same coconut saplings inside the Kinyama Estate in the year 2021. Accordingly, there was no seed coconut production again from the year 2020.

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Observations	Comments of the Management	Recommendation
92.2 hectares allocated for cashew cultivation and suitable for cashew cultivation but not cultivated had not been used for cultivation by 31 December 2023.	The extent mentioned as 92.2 hectares of cashew cultivation which has not yet been identified has been properly identified and corrected in the preparation of estimates for the year 2024.	The lands unutilized for cashew and other cultivations should be identified and used for cultivation.

### 3.4 Human Resources Management

Audit Observations	Comments of the Management	Recommendation
Even though approval had been given to employ 116 officers in relation to 32 positions by the letter No. DMS/G3/53/5 dated 04 May 2012 of the Department of Management Services, 18 officers in respect of 10 approved posts in the company were vacant by 31 December 2022. The company had not taken measures to revise the sanctioned staff appropriately by reducing non-essential posts.	Human resources are expanded keeping the space for the new projects and future plans expected to be implemented in the Chilaw Plantation Company, and no new recruitments have been made due to achieving maximum efficiency through a very few cadre.	Arrangements should be made to revise the approved cadre to suit the workload of the company.

## 4. Accountability and Good Governance

### 4.1 Annual Performance Plan

Audit Observations	Comments of the Management	Recommendation
05 projects worth Rs.98.04 million and 03 value addition projects worth Rs.56.12 million which had been planned for effective utilization of natural resources according to the action plan of the year 2022 had not been implemented effectively.	These projects could not be implemented due to the economic crisis prevailed in the country, the transport issues caused by the increase in fuel prices, the absence of foreigners in the country, the closure of schools in the country, etc.	Measures should be taken to include feasible projects in the action plan and annual budget estimate and to implement them effectively.