

Chilaw Plantations Limited - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 the provisions of the National Audit Act No.19 of 2018 and the 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, the financial statements give a true and fair view of the financial position of the Chilaw Plantation Limited as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

1.2 Basis for 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 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 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 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 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 Scope of Audit (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 judgement 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 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 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
Even though the company has no legal entitlement to provide loans to other institutions, an aggregate loan amount of Rs.105 million had been provided to Janatha Estate Development Board, Elkaduwa Plantation Company, Sri Lanka State Plantation Corporation, Ministry of State Resources Enterprise Development and Rubber Products Exports Corporation by company in 2010. On a decision of board of directors of the company, the total provisions had been allocated in the financial statements for Rs.119.758 million to be charged including interest from relevant companies in 2014. At the end of year under review, the total loan amount of Rs.190.157 million couldn't be recovered including the interest.	The financial facilities/loan for their essential financial activities had been provided to these public institutions by Chilaw Plantation Limited in 2010 as per the instructions of the former Secretary of State Ministry of State Resources and Enterprise Development and concurrence of the General Treasury. The various efforts had been taken in relation to recovery of the relevant loan amounts since the year on which the loan had been provided. However, the full provisions had been given for this from the financial statements in 2014 as per a decision of Board of Directors.	The action should be taken in compliance with the objectives of the company and the action should be immediately taken to recover the loans and interest.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 302,606,407 and correspondingly, the profit in the preceding year was Rs. 513,881,001. Accordingly, it was observed a deterioration of Rs. 211,274,594 i.e.41 percent in the financial result. Accordingly, the increase of the cost of sales of coconut, cashew, seedling and coconut plants by Rs.82 million, Rs.41 million and Rs.16 million respectively and decrease of coconut sales income by 126 million in the year under review had mainly caused for this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

	2023 (Rs.)	2022 (Rs.)	Variance (Rs.)	Variance as a percentage
Revenue	899,693,759	975,106,419	75,412,660	
Financial and Other Income	341,545,704	332,435,788	9,109,916	3
Cost of Sales	671,910,856	520,940,365	150,970,491	29
Administrative Expenses	205,069,246	229,027,818	23,958,572	10
Finance Expenses	61,652,953	43,693,022	17,959,931	41

2.3 Ratio Analysis

- In the year under review, the current ratio and quick assets ratio were 4:1 and 3:1 respectively and such ratios in the preceding year were 4:1 and 3:1 respectively.
- In the year under review, the gross profit ratio was 25 percent and it had deteriorated by 22 percent when comparing with 47 percent in the preceding year.
- In the year under review, the net profit ratio was 26 percent and the net profit ratio had deteriorated by 25 percent when comparing with 51 percent in the preceding year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In accordance with the sample test, the Board of Directors had been decided to provide a land in extent of 839 acres related to 03 estates to an external party on lease basis for additional crops cultivation at the date of audit. However, the company had no policy or method on what lands to be leased and to whom those lands to be leased.	Since a part of land about 83 percent of one square area between coconut trees (Alliya) had existed as vacant land without utilization, the applications had been called through popular paper advertisements after obtaining the approval of the Board of Directors. Subsequently, the applications received through such criteria had been forwarded to a committee appointed by company. After that selecting the suitable applicants, these lands had been provided under agreement subject a deposit and a fee. As per the conditions of the agreement, the title or possession will not be assigned to the applicants about the subjected property in any way.	The specific policies and methods should be prepared on selected lands and persons for making sub lease in the company.

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| <p>(b) The sales commission of Rs. 12,968,208 and Rs.14, 779,102 had been given in 2023 and 2022 respectively with regard to each zone based on coconut sales. An approved method or policy for enhancement of the benefits through payment of commission to the staff of the company without providing the coconut yield to the coconut auction had not been submitted to the audit.</p> | <p>A service with higher effectiveness can be obtained from the Estate Superintendent and the Field Officers through giving this commission and when a higher income is received, a higher benefit is received and when lower income is received, a lower benefit is received.</p> | <p>The action should be taken to increase the sales as far as competitively and obtain a better price through the coconut auction and an approved method should be followed for the additional payments performed of the officers of the company.</p> |
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3.2 Idle or Underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>A contract had been given for removing soil of 5000 cubes in Sinasola hollow in Chilaw Estate zone in 2021 and even though it had been contracted to earn an income of Rs. 1,030,200 by cutting 1,212 cubes in 2021, it had been stopped in half way and the activities of that hollow had not been commenced even at the date of physical inspection on 19 July 2024.</p>	<p>After conducting arbitration as per the agreement on conflicting situation arisen on removal of only 1,212 soil cubes in 2021 in relation to reformation of Sinasola Hollow, the agreement had been revoked. Even though the tenders had been called in several occasions to complete the activities of hollow, so far a tenderer had not forwarded. There is an old lake in the place where the excavations are being performed in Sinugala Estate. An expansion is carried out through this project with a plan in some extent with the silt filled in it. The renovation of this small lake will greatly support to control/increase in ground soil water level in the garden.</p>	<p>The action should be taken by the company to effectively prepare the plans and to select the suitable experienced and reliable contractors for mining the hollows.</p>

3.3 Human Resource Management

Audit Issue	Management Comment	Recommendation
<p>(a) The Estate Superintendent had taken action to recruit 23 employees including persons more than 60 years on payment of daily wages of Rs.900 without formal approval.</p>	<p>The Estate Superintendent had taken action to make this recruitment on temporary basis with the intention of minimizing the expenditure in the estate taking into consideration the difficulty of recruiting new employees and the request made for reemploying in the service after retirement at the age of 60.</p>	<p>The recruitments should be made on the approval of proper authority in accordance with the recruitment procedure of the company.</p>

- (b) 141 employees had been recruited to the staff of the company on daily wages basis, contract basis and collective agreements exceeding the staff approved by the Department of Management Services.
- As per the collective agreements, the employees had been engaged in the clerical service, field service, support/assistant staff and tractor driver. On daily wages basis, 02 chief clerk posts, one employee for officer in charge, one employee as tractor driver and 02 Assistant Estate Superintendents employ in the service.
- The recruitments should be formally made after obtaining the approval of the Department of Management Services and preparing the human resource plan on requirement of the staff of the company.