

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 2024 comprising the statement of financial position as at 31 March 2024 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2024 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 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.

1.5 Non – Compliance with Laws, Rules, Regulations and Management Decisions etc.

Audit Issue	Management Comment	Recommendation
According to the Section 5.1 of Public Enterprises Circular No. 01/2021 of 16 November 2021 for Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises (SOE's), the payment of bonus or profit based incentives should not be made to the employees of the Company without declaring interim and final levies / dividends, the Company had paid a sum of Rs.168,808,998 as bonus for its employees in the year 2023/2024 without being declared interim and final levies / dividends based on the profit for the financial year 2023/2024	According to the point no. 7.4.2 and 7.4.3 of management agreement, the management has provision to hire, dismiss, promote, supervise, direct and train all GOPL employees and to fix their compensation, incentives, salaries, wages and reward policies. The ex-gratia payment released based on the company profitability according to the management agreement above clauses. The board of directors given their consent on pay the dividend in the 2022-23 but failed from the solvency test due to adverse current ratio. The company in a position to declare dividend in this financial year (2023-24) as well upon the audited financials.	Need to adhere with the provisions of the Guidelines on Corporate Governance and Operational Manual for State Owned Enterprise(SOE's).

2. Financial Review

2.1 Financial Result

- The operating result for the year under review was a profit of Rs.1,024,701,000 and the corresponding profit for the previous year was Rs.5,649,161,000 It was observed that decrease in profit of Rs. 4,624,460,000 compared to the previous year and mainly due to decrease in net income of the company by Rs.6,066,595,000.
- The administrative expenses of the company had increased by Rs.228,185,000 or 12.5% percent in the year under review compared to the previous year, while the financial expenditure had decreased by 63,373,000 or 4.5% percent from Rs.1,405,681,000 in the previous year to Rs.1,342,308,000. As a result, the company's gross profit decreased from Rs. 8,427,866,000 in

the previous year to Rs. 4,254,952,000 in the year under review by Rs. 4,172,914,000 or 49.5% percent and there was a net profit of Rs.1,024,701,000 in the year under review.

3. Operational Review

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the information provided by the company, the Company had paid a sum of Rs. 456,740 as assessment tax to a Damana Pradeshaya Sabha from 2022 to 2024. However, it was observed that out of 233 official quarters that can be provided for the employees of the company there are 211 official residences which are occupied by unauthorized families. Action had not been taken by the company to remove them.	This land has already included in the government equity, we have to pay all taxes to the government. Therefore, we have to paid all assessment tax to the local authority. Finalizing land lease agreement has expedited with the assistance of Ministry of Finance, Land Commissioner General Department and District Secretary of Ampara. Once the agreement signed, company can take suitable actions.	Necessary action needs to be taken to take over the houses, signing of land lease agreement and, once signed need to take legal action against the parties concerned.
(b) According to the Cabinet Minutes dated March 6,2009, the company was granted a 30 year lease for 207.3584 hectares of land in the Damana Divisional Secretary's Division for sugarcane cultivation. Although over 13 years of the lease period has elapsed, the company management has clarified the ownership status but has not yet taken action to secure the lease ownership. While a lease plan for 170.7345 hectares has been prepared and the necessary documents submitted to the Survey Office in Ampara, the company has not progressed toward obtained ownership of this land. Additionally, for the remining 36.6239 hectares, a lease plan has yet to be prepared and submitted to the Survey Office in Ammpara as of the audit date.	The management right of the sugarcane cultivation lands has been provided for 5 years period by the Land Commissioner General's Department on 15.02.2021, that have been gazette in 1975 & 1989. Regarding the lands of 277.7539 ha and their 30 years Net Present Value of lease rentals have included in to the government equity. Finalizing land lease agreement has expedited with the assistance of Ministry of Finance, Land Commissioner General Department and District Secretary of Ampara. We have sent all the necessary documents and related reports to the Land commissioner general on time. All necessary fallow-ups are done on time, but as explained under above No (d), due to the unauthorized persons residing the houses, lands etc. of these lands, government couldn't finalize the signing of land lease agreement from government side. After continuous follow-ups and supports from said	The Company management should take action to secure the lease ownership.

officials, agreed to issue this long-term lease in to two stages.

According to that, the “L” diagrams required to provide long term leased under the first phase for the plots of lands that have no problematic conditions have already been forwarded the Land Commissioner General by the Survey Department to the direct request of relevant Divisional Secretariat.

(c) According to the financial position as at 31 March 2024, the balance due from the farmers was Rs. 2,043,877,258 of which Rs. 48,861,623 and Rs.46,977,986 were outstanding for more than 03 years and 05 years respectively.	The company was able to recover Rs.574 Mn out of 2,044Mn dues as of 31st July 2024. Further the company is continuously monitoring the long dues and unsettle balances on regular basis.	Prompt action needs to be taken to recover the outstanding loan balances from farmers.
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3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In comparison with the previous year, the profit before tax for the year under review had decreased by Rs.4,271 million or 80 percent. The decrease in sugar sales income by Rs.2,496 million and Extra Neutral Alcohol (ENA) sales income by Rs.3,680 million in the year under review had mainly contributed to the decrease in profit in the year under review.	The main reason was dropped in sugar & ENA revenue in the year 2023/24 compared to year 2022/23. The revenue consists of both price & quantities. The sugar price decreased from Rs.293/- to Rs. 282/- per kg and ENA price decreased from Rs. 1258 to Rs. 1025 per litter in the year 2023/24. Due to scarcity of fertilizer in the year 2022/23 all planting and ratoon targets significantly came down. This was mainly impacted to year 2023/24 cane harvest and resulted to decreased production and sales quantities. The sugar sold quantities decreased from 26,053 MT to 18,287 MT and ENA sold quantities decreased from 5,085,488 BL to 2,653,900 BL in the year 2023/24. Therefore, altogether total revenue was dropped by 6,176 Mn which are 2,496 Mn from Sugar & 3,680 Mn from ENA. The revenue dropped resulted to got reduce Profit Before Tax by 4,271 Mn in the year 2023-24 compared to year 2022-23. But with the availability insufficient fertilizer in 2023/24 year, farmers could able to maintain their field effectively. Therefore, is seems continues cane supply in the year 2024/25.	Prompt action to be taken to increase the Sales (with profit) income in the Company

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| <p>(b) During the financial year 2023/2024, 18,286.25 metric tons of sugar had been sold by the Gal Oya Plantation (PVT) Ltd. The Cost of production of the sugar sold was Rs. 5,280,299,063. However, the income from the sugar sale amounted to Rs. 5,159,228,898 only. As a result the Company had incurred a loss of Rs.121,070,164.</p> | <p>Currently, local sugar companies supplied below 15% out of local sugar requirement. The balance requirement fulfilled through importation. The local sugar companies face difficulties to sell their sugar with the competition of imported white sugar prices. In addition to that Value Added Tax (VAT) was imposed very first time to sugar industry with effect from 1st of January 2024. That also adversely impacted to sell the sugar in to market. Currently loose white sugar prices about Rs. 250/- per kg in the market. If we sold brown sugar at Rs. 250/- kg it will be Rs. Rs. 295/- with the VAT. This is the factory gate price & there are some costs to be added to final price. Due to white sugar prices the local sugar company unable to sell the sugar by keeping margin.</p> | <p>Sales price should be decided based on the Cost of production</p> |
| <p>(c) The company sets the selling price of sugar based on production costs and desired profit. However, pricing decisions are made by a committee following a standard procedure, which lacks transparency. In the financial year 2023 / 2024, the production cost per kg of sugar was Rs 288.75. the company sold 13,186.25 metric tons at prices below production costs on nine occasions, leading to a total loss of Rs.229,853,589</p> | <p>According to the SOP of sugar sales process, it is clearly saying “the selected buyers then forward for approvals by an approval committee mandated by the company”. Approval committee consist of Head of Finance, Head of Factory, Chief Operating Officer and Two board of Directors. All sugar sales decision was taken by approval committee. According to the SOP, all responsibility & accountability goes to the Sales officer and Accountant respectively.</p> | <p>A formal methodology should be followed to make the sales with profit</p> |