

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Kurunegala Plantations Limited for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 the provisions of the Companies Act No.07 of 2007 and 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, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2024, 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 Qualified Opinion**

My opinion is qualified based 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 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 the 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 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 discussions 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 Observation on preparation of the Financial Statements**

### **1.5.1. Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The outstanding rent payable to the Treasury in respect of the lands leased to the Kurunegala Plantation Company for cultivation purposes was Rs. 330,779,281 as per the books of the company, while as per the reports issued by the Ministry of Plantations and Community Infrastructure, the value was Rs. 368,920,534, a discrepancy of Rs. 38,141,253 was observed. Furthermore, this rent payable to the Treasury was shown as a contingent liability in the statement of financial position without being shown as a liability, but as a value of Rs. 342,979,245 in the accounting notes.	Although Rs. 368,920,534 is due by the end of the year under review, it is due until 17 March 2025 and the lease rent is calculated according to an equation based on the company's net assets, and since that value is low, it cannot be recognized as a liability until the issue is resolved with the Ministry of Finance and the line ministry.	Action should be taken to promptly discuss with the Treasury and the Line Ministry to account for and settle the correct tax rent.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result for the year under review was a profit of Rs. 283.47 million, compared to the profit for the previous year of Rs. 476.61 million. Accordingly, a decline of Rs. 193.14 million was observed in the financial result. This decline was mainly due to a decrease in financial income of Rs. 138.83 million and an increase in income tax expense of Rs. 73.53 million compared to the previous year.

## 2.2 Trend Analysis of major Income and Expenditure items

	2024 (Rs.)	2023 (Rs.)	Variance (Rs.)	Variance as a percentage %
Revenue	1,284,448,519	1,010,951,819	273,496,700	27
Financial and other income	211,034,700	360,781,268	(149,746,568)	(42)
Cost of Sales	794,727,717	563,224,713	231,503,004	41
Administrative Expenses	211,033,967	226,833,617	(15,799,650)	(7)
Finance Expenses	74,888,281	47,244,012	27,644,269	59

## 2.3 Ratio Analysis

- At the end of year under review, the current assets ratio and quick assets ratio 5:1 and 4.1 and such ratios in the preceding year were 5.1
- In the year under review, the gross profit ratio was 38 percent and the gross profit ratio had deteriorated by 6 percent when comparing such ratio which was 44 percent in the preceding year.
- In the year under review, the net profit ratio 22 percent and such ratio had deteriorated by 25 percent when comparing with the net profit ratio which was 47 percent in the preceding year.

## 3. Operational Review

### 3.1 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In the previous year, machinery worth Rs. 9,644,090 was purchased from selected suppliers in the first instance without properly identifying the requirements for the construction of a white coconut oil production factory in the Holongolla division belonging to the Dodamgaslanda Provincial Estates Group. Machines worth Rs. 3,470,000 were purchased from the same suppliers once again on the recommendations of the Technical and Procurement Committee without re-calling for	This purchase was made on the advice of the consultant to increase the capacity of this factory and to continue production activities in the event of a machine failure.	Steps should be taken to take formal action against officials who carried out procurement activities without a formal plan and to implement an urgent program to deploy the purchased machinery for

quotations. Accordingly, although the machinery and equipment purchased at a cost of Rs. 13,114,090 had been in use for more than 2 years, they were not used for coconut oil production and were stored idle at the end of the year under review.

production purposes.

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| <p>(b) The Company had cultivated 3,616.15 hectares of coconut in 07 plantation zones and the total number of coconut trees was 495,032. The number of coconut plants planted as undergrowth and the number of vacant plants planted annually from 2021 to 2024 were 9,796, 13,538, 9,800, 8,735 and 11,357 respectively, so the number of vacant plants to be planted further at the end of the year under review was 82,774. No effective program had been implemented to complete the number of vacant trees in coconut cultivation, which is the main crop among the Company's plantations, and expand the cultivation.</p> | <p>Coconut underplanting and planting of vacant plots will be continued every year, and efforts will be made to expand coconut cultivation by continuously planting only to a manageable extent in accordance with the recommendations of the Coconut Research Institute, with financial control based on the resources available in the estates.</p> | <p>Actions should be taken to formulate and implement an urgent program to complete the planting of vacant trees.</p> |
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### 3.2 Project or Capital Work Delays

Audit Observation	Comments of the Management	Recommendation
<p>Although 10 months had passed since 2,900 mango plants worth Rs. 725,000 were purchased for the implementation of the Dhathusenapura TJC Mango Project, the relevant project had not been implemented due to the lack of a suitable place to plant the plants. Due to this, there was a risk of damage to the quality of the plants.</p>	<p>Due to the objections raised by farmers regarding the paddy field that was to be used for planting, planting has been suspended until a response is received, and the mango plants have been transferred to larger polythene bags and are being maintained with constant attention to ensure greater growth.</p>	<p>Actions should be taken to take action against officials who selected and implemented projects without a formal plan, and to implement an urgent program to cultivate the purchased mango plants.</p>

## **4 Accountability and Good Governance**

### **4.1 Tabling of Annual Reports in Parliament**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The draft annual report along with the financial statements had not been submitted for audit in accordance with paragraph 6.6 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The report is being prepared.	Actions should be taken to prepare the annual report promptly and to submit the draft annual report along with the financial statements to the Auditor General from the coming year as per the circular.