Gal Oya Plantation (Private) Limited – 2021/2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Gal Oya Plantation (Private) Limited Company for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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, 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 March 2022, 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 Qualified Opinion

My opinion is qualified 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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non – compliance with Sri Lanka Accounting Standards

Non - compliance	Comment of the Management	Recommendation
According to Note. 2.5 (a) to the financial statements, it was stated that the Management reviews the estimated useful lives of depreciable Property, Plant and Equipment (PPE) at each reporting date based on the expected utility of the assets. However, fully depreciated assets approximately costing Rs. 228.81 million representing 12.5 per cent of the total assets are being continuously used by the Company without reassessing the useful economical lifetime of those assets as per the provisions in paragraph 51 of Sri Lanka Accounting Standard (LKAS) 16 – Property, Plant and Equipment and 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.	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 accordingly. However, the Company spent significant amount to repair and maintenance of these fully depreciate assets annually and those cost charged to statement of comprehensive income.	Action need to be taken to comply with the Provision stated in LKAS 16 and LKAS 08.

1.5.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Management	Recommendation
Confirmation documents for the capital contribution and employee's pay sheets with regard to the Stated Capital and Payment of salaries aggregating Rs. 1,379,190,795 had not been provided for audit in order to confirm and verify the accuracy and physical existence of those account balances.	The remuneration of employees is decided by the Management Company under the Management Agreement.	Confirmation documents should be provided for audit in order to confirm and verify the accuracy and physical existence of those account balances.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference Laws, Rules, Regulations and Management Decisions etc	Comment of the Management	Recommendation
(a) Section 40 of the National Audit Act, No. 19 of 2018 Although there shall be an Internal Auditor duly appointed by the Company's Board of Directors to carry out the audit activities of the Company, the internal audit proceedings were carried out by the Internal Audit Staff of one of the shareholding company i.e. the Lanka Oryx Leasing Company without establishing a post of internal auditor and separate internal audit unit for the Company while a sum of Rs.1,840,048 was paid to them in the year under review.	This was discussed at the Audit & Management Committee Meeting (AMC). Accordingly, applications were called for reputed audit firms to do the internal audit assignment by publishing newspaper advertisement. However, no qualified parties have responded.	In accordance with the National Audit Act, an internal audit unit responsible for the Board of Directors of the Company need to be appointed.
(b) Government Procurement Guidelines 4.2.1 The Master Procurement Plan should be prepared at least for a period of three years and should be regularly updated within a period not more than six months and thereafter a detailed Annual Procurement Plan should be prepared for the following year. However, the Company had failed to prepare the Master Procurement Plan.	Galoya Plantations (Pvt) Limited is a joint venture between the Government of Sri Lanka and the consortium (Brown & Company PLC and LOLC Holdings PLC), where 51 percent of the ownership remains with the Government of Sri Lanka and 49 percent of the ownership is with the consortium. However, the management is handled by the consortium, and a forecasted budget is being prepared annually with approval from the Board of Directors. The budget was prepared based on the procurement budget	Action need to be taken to comply with Government Procurement Guidelines.
(c) Public Enterprises Circular No. 01/2021 of 16 November 2021 for Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises (SOEs)		

(i) Paragraph 5.1 Although 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 Rs. 59,441,160 as bonus for its employees in the year 2021/2022 without being declared interim and final levies / dividends based on the profit for the financial year 2021/2022.	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 above clauses. The Board of Directors given their consent on declaration of dividends, but due to insolvency of the company, dividends was not finalized.	Need to adhere with the provisions of the Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises (SOEs).
(ii) Paragraph 5.3 It is expected that at least 30 percent of the profit after tax is distributed to the Consolidated fund / Shareholders, having satisfied the solvency test as stipulated in the company Act No 07 of 2007. However, the Company had not paid any dividend to Consolidated Fund / Shareholders even up to the date of this report.	Due to insolvency of the company, dividend was not finalized.	Need to comply with the provisions of the Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises (SOEs)

2. Financial Review

2.1 Financial Result

(a) The operating result for the year under review was a profit of Rs.2,005,792,206 and the corresponding profit for the previous year was Rs.749,367,009. It was observed that an increase in profit of Rs. 1,256,425,197 compared to the previous year and mainly due to an increase in net income of the company by Rs. 1,256,425,197.

(b) The administrative expenses of the company had increased by Rs.288,670,928 or 29.6 percent in the year under review compared to the previous year, while the financial expenditure had decreased by 20 percent from Rs.1,764,592,788 in the previous year to Rs.2,118,837,177. As a result, the company’s gross profit increased from Rs. 3,440,998,164 in the previous year to Rs.4,677,882,467 in the year under review by Rs. 1,236,884,303 or 26.4 percent and there was a net profit of Rs.2,005,792,206 in the year under review.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observations	Management Comment	Recommendation
(a) Although it was planned to earn Rs.25,314,575 and Rs.9,126,000 respectively as income from solar power generation and carbon dioxide (CODS) Production respectively, no income was generated during the year under review.	We expected to export the solar power to the national grid from month of November, 2021 onward. However, once the project commenced there were number of incidents took place, which caused delays in project implementation. Out of them, Covid-19 out brake severely affected for the whole project activities and some occasions had to demobilize the project team. Also, it affected to the delaying shipments. Further, With the economic crisis in the country, so many government restrictions also severely affected to LC opening and the LC/TT payments. As a result, most of the import items were not received to site on time. Further shortage of fuel availability in the country where transportation of staff and materials on time was a challenge 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. Due to the COVID 19 pandemic situation and the financial crisis of the country, severely affected the CO2 project implementation. Now we started the project construction works.	Actions need to be taken to implement the projects.
(b) The Company had procured a Solar Photovoltaic Roof Top System with 3739 panels of 2,000 kilowatts by spending Rs. 258,069,752 in the financial year. The following matters were observed in this connection. According to the decision of the Board of Directors dated 01 April 2021, this contract was awarded to First Energy (Pvt) Limited for a contract value of Rs.	Agreement for the 2,000kWp was signed on 05th April 2021 and started the project activities at the cost of Rs. 258,069,752.00. However, with the Covid 19 Pandemic and economic crisis of country, cost for the solar projects were drastically increased. As per the information received from the CEB, there was a possibility to supply additional electricity to the national grid. Therefore, considering the financial feasibility, it was decided to expand the existing solar	Necessary action need to be taken to recover the over payment and adhere with the Government Procurement Guidelines.

258,069,752 and an agreement was entered into on 05 April 2021. However, it was observed that an amount of Rs.70,822,531 had been overpaid to the contractor until 31 March 2022 as the Company had paid a total amount of Rs. 328,892,283 for this contract works. The agreement was also not signed by the Chief Accounting Officer, who is the authority to approve an agreement with the actual value as per the Guideline 2.14.1 of the Government Procurement Guidelines.	project by another 1,750kWp with the same cost (Rs. 111,741.37 per kWp). The cost for the expansion solar project was Rs.195,547,397. Total cost of the solar project was Rs. 453,617,149.50 except civil and project related works. Company had paid supplier cost of Rs. 317,532,005 (70% as advance and progress payment, according to the agreement) and civil and project related cost of Rs. 11,360,278 during the financial year 2021-22 amounting the total of Rs. 328,892,283. GOPL has the own Procurement Guideline, therefore the signing of Chief Accounting Officer is not required.	
(c) It was observed that the percentage of sugar extraction has gradually decreased in the last 07 years and the highest value of 8.1 percent recorded in the year 2014/2015 had decreased to 6.4 percent by the year under review. The Company had failed to investigate the causes and take remedial actions to successfully address this situation.	Currently, all local sugar factories are facing big challenge on sugar recovery and POL % of cane. Last few years recorded low recovery level and low POL % of cane in sugar sector. Sugarcane Research Institute (SRI) is also involving to find out the root cause of this issue. As a company, we also, put our maximum effort to overcome the low POL % of cane and sugar recovery in the factory. POL % of sugarcane and sugar recovery is highly susceptible for environmental changes and management practices. However, at present factory is going to upgrade with adding new milling tandem, new boiler and power turbine and necessary process house equipment. parallelly, Sugar cane cultivation also developing horizontally and vertically by adding latest technology. With these developments, factory will be able to crush more sugar cane and increase sugar recovery in near future. We are introducing new technologies on planting and good agronomy practices to increase the POL% of cane in the field. Now we are practicing cane scheduling to improve our sugar recovery. And also, we already changed yard practices to minimize staling cane in the factory yard.	Factors affecting to the decline in POL Percentage need to be identified and It is necessary to investigate the causes and take remedial actions to address this situation.

		Due to above reasons, we are expecting high POL% in cane and high recovery in the factory.	
(d)	According to the Company's 10-year data, it was observed that the amount of sugar present in the cane stalks fed into the factory's machines to produce sugar had gradually decreased by the time of the conversion. Accordingly, the figure which was 10.9 percent in the year 2012/2013 had reduced to 6.4 percent by the year under review, but the management had not taken fruitful action to improve that percentage.	Currently, all local sugar factories are facing big challenge on sugar recovery and POL % of cane. Last few years recorded low recovery level and low POL % of cane in sugar sector. Sugarcane Research Institute (SRI) is also involving to find out the root cause of this issue. As a company, we also, put our maximum effort to overcome the low POL % of cane and sugar recovery in the factory. POL % of sugarcane and sugar recovery is highly susceptible for environmental changes and management practices. However, at present factory is going to upgrade with adding new milling tandem, new boiler and power turbine and necessary process house equipment. parallelly, Sugar cane cultivation also developing horizontally and vertically by adding latest technology. With these developments, factory will be able to crush more sugar cane and increase sugar recovery in near future. We are introducing new technologies on planting and good agronomy practices to increase the POL% of cane in the field. Now we are practicing cane scheduling to improve our sugar recovery. And also, we already changed yard practices to minimize staling cane in the factory yard. Due to above reasons, we are expecting high POL% in cane and high recovery in the factory.	Factors affecting to the decline in annual sugarcane production need to be identified and it is necessary to nvestigate the causes and take remedial actions to address this issue.
(e)	In accordance with the government policy to reduce chemical fertilizers, the Company expects to produce 7000 metric tons of Bio-compost annually and sell it to both public and private buyers. The compost yard constructed at a cost of 2,625,200 in the year 2017/2018	The yard has the maximum capacity to produce 7,000 MT of compost but, we targeted to produce 5,759 MT of compost. Due to unfavorable climatic condition and unavailability of yard roof, COVID 19 pandemic condition and financial crisis of the country, we able to produce 4,300 MT of compost for the said financial year. We are the largest compost produce in the	Factors affecting to the decline in annual Bio – compost production should be identified and It is necessary to investigate the causes and take remedial actions to

had only produced 4300 metric tons of compost in the year 2021/2022. Accordingly, the company had failed to fully utilize the compost yard as it was unable to achieve production targets.	country at present.	achieve production targets.
(f) The Company targeted to produce 10,000 kilograms of carbon dioxide (CO_2) per day and release it to the market to get additional income. Accordingly the CO_2 production project had been commenced in 2018 and expected to complete within 6-9 months by incurring Rs. 250 million. However, the project had not been implemented even as at 30 November 2022.	Due to the COVID 19 pandemic situation and the financial crisis of the country, severely affected the CO_2 project implementation. Now we started the project construction works.	Action need to be taken to implement the project.
(g) The total production cost (including borrowing cost) for producing 1kg sugar were Rs.216.60 and 180.85 in the year 2020/2021 and 2021/2022 respectively. However, in order to determine the selling price of sugar, bids are calling from only registered limited suppliers instead of calling prices from competitive open markets to maximize the profit of the Company. As this situation, the Company's present selling price per kg of brown sugar is ranging from Rs. 280 to Rs. 300. However, the retail price of a one kg of brown sugar in the consumer market is ranging from Rs. 360 to Rs. 378. As a result, the Company is losing significant amount of income due to calling limited bid prices only from few organizations.	Sugar sales are very important to maintain the healthy cash flow in the company. At the beginning of each financial year company invited to customer to register for sugar sales business. The sales section was invited bid for bulk sales from all registered customer at the time of sales placed. There are few buyers quoted for this sales depending on their buying power. Currently we have around 60 no of registered customers but only 5 to 10 customers are responded for the bids. - Due to heavy cash requirement for operation, company had to activate sales on weekly basis (1000Mt of sugar for a week). The company is carrying out bulk sales only (similar company like Lanka sugar, Ethimale) and can't touch the retail market. Therefore, retail market prices beyond our control	Necessary action need to be taken to reach current market prices.