

Elkaduwa Plantation Limited - 2015

The audit of financial statements of the Elkaduwa Plantation Ltd. for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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. The matters observed in that audit appear in this report.

1.2 Board of Director's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Elkaduwa Plantation Ltd. as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard – 40

The value of a plot of land, 55.94 hectares in extent in the Nalanda Estate which had been leased out to the Cashew Corporation in the year 2008 had been shown as lease property plant and equipment in the financial statements and it had not been recognized as investment properties.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the amount to be provided on surcharges which would be payable due to non-payments of statutory payments by the end of the year under review had been Rs.94,561,208 whereas the provision made was Rs.29,515,782. Accordingly, the profit of the year under review had been overstated by Rs.65,045,426 due to under provision made relating to the year under review.
- (b) Demurrages charges of Rs.121,763 paid to the lease creditors during the year 2015 had been accounted as interest payment.
- (c) Without taking action to identify a sum of Rs.34,043 directly received to the bank account in the year under review correctly, it had been accounted under other income named as “Bank Errors Account.”
- (d) The company had not taken action to identify and adjust in the accounts the debit balances totalling Rs.1,669,204 in 6 accounts and credit balances totalling Rs.1,158,899 in 3 accounts, having been identified.
- (e) Action had not been taken to identify matured and immatured rubber trees disposed from the Nalanda Estate by obtaining a compensation of Rs.1,887,100 in fixing transmission line of the Ceylon Electricity Board and to write off the value thereof from books.

- (f) Accrued electricity, water and telephone expenses amounting to Rs.223,720 relating to the year under review had not been brought to account.

2.2.3 Unreconciled Control Account

A difference of Rs.2,213,374 between the current account of Head Office and 8 estates belonging to the company was observed.

2.2.4 Lack of Evidence for audit

Evidence stated against the following items was not made available for audit.

Item	Value	Evidence not made available
-----	-----	-----
	Rs.	
Motor vehicles	4,107,409	Vehicles Registration Books, Vehicles, Log Books
Insurance indemnities receivable	260,647	Register of Insurance Claims
Biological assets	550,544	Register of Losses, Register of issuing plants

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Debit balances totalling Rs.5,168,837 relating to the 12 current assets had been brought forward for a long period and the company had not taken any action to recover or settle them.
- (b) Action to recover or to take an appropriate course of action in respect of 15 balances of sales debtors totalling Rs.3,367,650 older than 3 years even by the end of the year under review.
- (c) As a result of showing a sum of Rs.43,782,265 out of a sum of Rs.67,301,948 receivable to the company since August 2015 for the supply of raw tea leaves to the Lessers to whom Tea Factories were leased out as receivable balances within a period less than 30 days shown in the debtors age analysis, its correctness could not be satisfied in audit.
- (d) The factory at Bandarapola had been leased out to a private Company on 28 June 2006. Action had not been taken to recover a sum of Rs.31,809,179 due from the Company as at the end of the under review in respect of supply of tea leave and the royalty income.

- (e) A total credit balance of Rs.18,510,358 payable to 11 external parties at the beginning of the year had been dormant during the entire year without being subjected to any transactions. The Company had not taken any action to settle those balances.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, and Regulations, were observed.

Reference to Laws, Rules etc	Non- compliance
-----	-----
<p>(a) Public Enterprises Circular No.PED/12 of 02 June 2003</p>	
<p>(i) Paragraph 9.9</p>	<p>Overtime allowances of Rs.429,550 had been paid during the year under review but a detailed report thereon had not been presented to the Board of Directors.</p>
<p>(ii) Paragraph 9.12</p>	<p>Without the approval of the Department of Public Enterprises, a welfare fund had been established and the balance of that fund as at 31 December 2015 amounted to Rs.1,667,009.</p>
<p>(b) Public Enterprises Circular No.PED/1/2015 dated 25 May 2015</p>	
	<p>(i) In excess of the fuel limits of the Chairman and the General Manager of the company sums of Rs.22,850 and Rs.23,250 had been obtained during the month of December 2015 without any approval respectively.</p>
	<p>(ii) Two officers who were not entitled to official vehicles, a monthly transport allowance of Rs.25,000 had been paid and the company had spent a total sum of Rs.2,100,000 since the year 2010 in this regard. Further a monthly fuel allowance of Rs.8,000 had been paid one of these officers and the total expenditure incurred thereon within 18 months by the Company amounted to Rs.144,000.</p>

(iii) Two vehicles belonging to the Company had been attached to the two officers who were not entitled for official vehicles. An expenditure of Rs.305,308 had been incurred in that connection as fuel in the year under review.

(c) Guideline 6.2.2 of the Procurement Guidelines of 2006.

Eventhough 21 days should be given for the submission of competitive bids, only 10 to 17 days had been given in 04 instances in respect of procurements valued at R.16,857,785.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the company for the year under review had been a deficit of Rs.26,922,929 as against the surplus of Rs.30,402,163 in the financial results for the preceding year, this indicating a deterioration of Rs.57,325,092 in the financial results for the year under review as compared with the preceding year. Decrease of profit from biological assets amounting to Rs.83,949,382 in the year under review as compared with the preceding year had mainly attributed to this deterioration.

In analyzing the financial results for the year under review and the preceding 4 years a continuously increase in deficit was observed from the year 2011 to the year 2013 and a surplus of Rs.30,402,163 was reported in the year 2014. Again there was an deficit of Rs.26,922,929 in the year 2015. However, considering the employee remuneration, taxes paid to the government and the depreciation on non-current assets, the contribution of the company in the year 2011 amounting to Rs.256,242,435 had been gradually decreased up to the year 2013. Although it had improved to Rs.302,034,960 in the year 2014, again it had decreased to Rs.270,872,418 in the year 2015.

3.2 Analytical Financial Review

3.2.1 Comprehensive Income Statement

	2015	2014	Percentage Change in Difference
	----- Rs.	----- Rs.	----- %
Income			

Operating income	279,329,596	285,583,136	-2
Other income	38,010,205	33,706,327	13
Income	2,679,936	3,457,669	-22
Operating Expenses			

Cost of sales	311,986,186	345,801,375	-10
Administrative expenses	26,215,237	20,705,368	27
Financial expenses	9,421,863	10,468,229	-10

The following observations are made.

- (a) A decrease of 22 per cent was observed in revenue in the year under review as compared with that of the year 2014.
- (b) A decrease of 27 per cent was observed in the administrative expenses in the year under review as compared with that of the year 2014.

3.2.2 Profitability of Main Items of Products

The profitability of the main items of products in the year under review, as compared with the 2 preceding years is given below.

Type of Product	Total Profitability [Favourable/ (Adverse)]		
	2015	2014	2013
	----- Rs.	----- Rs.	----- Rs.
Coconut	17,836,756	25,700,709	(9,861,038)
Rubber	(7,831,614)	(15,434,261)	(2,141,463)
Tea (Leaf)	(46,792,449)	(88,000,596)	(82,912,681)
Cocoa	1,236,553	1,444,264	(1,377,142)

Others	2,894,164	16,071,645	29,566,124
--------	-----------	------------	------------

The following observations are made.

- (a) The loss from sale of latex had further existed in the year under review as well and indicated a 49 per cent decrease as compared with the year 2014.
- (b) Loss from sale of raw tea leaf had decreased by Rs.41,208,147 in the year under review and the increase of production by 753,130 kg as compared with the year 2014 had been the reason therefore.
- (c) Profitability from sale of coconut had decreased by Rs.7,863,953 or 31 per cent as compared with the year 2014.
- (d) The revenue of Rs.29,566,124 earned from other crops in the year 2013 had dropped up to Rs.2,894,164 in the year under review. Decrease in revenue from peper and cloves had been the reason for it.

3.2.3 Ratio Analysis

According to the information made available certain significant ratios of the year under review and the previous year are given below.

	2015	2014
	-----	-----
Gross Profit (Loss) Ratio	11.67	21.08
Current Ratio	0.21:1	0.14:1
Quick Ratio	0.21:1	0.13:1

It was observed that the profitability of the company had declined in the year under review as compared with the preceding year. The working capital management had been a very weak position and there was no sufficient working capital to meet short term financial requirements.

4. Operating Review

4.1 Performance

4.1.1 Achievement of Budgeted Targets

According to the progress report, action plan and other information made available for audit, the main targets expected to be achieved during the year under review and the progress of the achievements thereof are detailed below.

Item	Extent of Lands in the Crops	Target	Actual Position	Actuals as a Percentage of Target
-----	-----	-----	-----	-----
	Hectare			
Coconut yield (Nuts)	277.66	1,123,500	969,648	86
Tea leaf (Kg)	883.18	3,727,240	4,007,384	107
Crape rubber (Kg)	282.19	130,000	81,888	63
Cocoa (Kg)	235.14	16,000	6,619	41
Peper (Kg)	31.95	12,000	246	2
Cloves (Kg)	6.00	8,500	0	0
Banana(Kg)	-	60,000	0	0

The following observations are made.

- (a) During the year under review, 86 per cent of the coconut yield had been achieved and the actual coconut yield of the Hapugaspiya Estate had been only 28 per cent of the Budget.
- (b) Of the budgeted cocoa plantation, 41 per cent had been achieved by the company and the cocoa yield achieved in the Hapugaspiya estate with 151 hectares during the year amounted to 2,361 kg.
- (c) The expected pepper yield was 12,000 kg and the actual yield had been only 246 kg or 2 per cent. Accordingly, it was observed that the pepper yield had been at a low level.
- (d) The company had not got any harvest from the plantation of cloves and plantants in the year under review.

4.1.2 Performance of the Provincial Estates

Profitability (Loss) of 9 Provincial Estates in the year under review and the four preceding years is given below.

Estate	2015	2014	2013	2012	2011
-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
Bandarapola	(7,597,975)	(14,467,836)	(11,390,467)	(6,941,457)	(12,599,460)
Elkaduwa	(11,751,702)	(12,042,377)	6,445,796	(12,528,544)	(4,638,902)
Hunugala	(9,115,648)	(7,181,131)	(12,869,561)	(3,764,065)	(8,302,021)
Pitakanda	(17,763,884)	(21,148,517)	(22,362,855)	(25,492,583)	(13,234,017)
Rathwatta	(15,458,537)	(617,512)	(2,142,766)	(9,691,574)	(26,616,845)
Selagama	(4,808,665)	(7,676,885)	(4,836,483)	2,456,574	(2,937,398)

Hapuspitiya	3,659,282	1,970,155	4,855,460	10,336,141	13,313,840
Millawana	18,312,216	45,035,227	(2,417,500)	5,551,977	18,115,405
Nalanda	(9,629,413)	3,877,446	(1,502,209)	4,637,927	11,132,604
	-----	-----	-----	-----	-----
Total	(54,154,326)	(12,251,430)	(46,220,585)	(35,435,604)	(25,766,794)
	=====	=====	=====	=====	=====

The following observations are made.

- (a) A net loss of Rs.31,382,890 had been incurred from estates of the Company during the year under review and the profits earned by only Hapugaspitiya and Millawa estates had been Rs.3,659,282 and Rs.18,312,216 respectively. The profit of the Millawa estate had deteriorated by 59 per cent as compared with the previous year.
- (b) The profit of the Hapugaspitiya estate amounting to Rs.13,313,840 in the year 2011 had dropped up to Rs.3,659,282 in the year under review.
- (c) Nalanda estate which had reported a profit of Rs.3,877,446 in the year 2014 had reported a loss of Rs.9,629,413 in the year 2015.

4.2 Management Activities

The following observations are made.

- (a) According to the reports of the Internal Audit Division, there were 102 vehicles belongs to the company but only 47 vehicles had been in running condition. Accordingly, the attention of the management had not drawn in using the remaining vehicles.
- (b) There were 1916 coconut trees in the Nalanda estate, 63.75 hectares in extent, and the standard number of trees were compared with it, the utilized of lands had been 2 per cent. Accordingly, the management had not taken action to utilized the lands effectively.
- (c) Eventhough one kg of tea leaf in the Pitakanda Estate in October of the year under review had been sold between Rs.55.29 and Rs.52.50, in the same estate 843 kg of tea leaf had been sold at Rs.29.13 per kg to a tea factory.
- (d) The company had failed to take suitable action in respect of 5 vehicles which had been identified as disposable by the Internal Audit Division.
- (e) A tenderer who purchased colves crops in Rathwatta estate in the year 2014 for a sum of Rs.5,400,000 had defaulted to pay a sum of Rs.2,500,000. Legal action to recover this money had not been taken.
- (f) Out of the total lands 281.72 hectares in extent in the Rathwatta estate in which tea had been planted 144.51 hectares or 51 per cent and 132 hectares or 46 per cent had

consisted of seeds tea and off shoot tea respectively and their effective life time had been expired. The management had not taken action in respect of the transcendence of effective life time of 97 per cent of the planted extent of lands.

- (g) According to the internal audit reports in respect of Nelaula estate and the Rathwatta estate, 150.24 hectares and 34.72 perchs in extent respectively they had been encroached by unauthorized persons for periods ranging from 20 to 60 years but action had not been taken to settle the ownership of those lands.
- (h) According to the decision of a court case filed against the termination of service by a person who held the post of confidential secretary, a sum of Rs.1,158,432 had been paid as salaries for the period of 32 months which he could not served. A person had been recruited for that post on contract basis before that Secretarial post become vacant, and a payment of Rs.240,000 had been made to him for 6 months.
- (i) Three officers who had been in the service of the estate and retired since the years 2000, 2001 and 2011 had not handed over their official quarters to the estate and continuously resided therein. Nevertheless, any action had not been taken to against them even upto the end of the year under review.

4.3 Operating Activities

The following observations are made.

- (a) In view of the supply of tea leaf at a price less than the normal price of Western Medium Zone where estates of the company existed as determined by the Tea Commissioner an estimated sales income of Rs.6,438,146 had been deprived of in the year 2015.
- (b) The production activities of the Pitakanda estate tea factory with a daily production capacity of 18,000 kg of raw tea leafs had been stopped since October 2002 and the attention of the management had not been paid in this regard.
- (c) Three Labourers on contract basis to whom the tea plucking of Rathwatta estate had been handed over had plucked tea leaves only for once at 4,5 and 9 months respectively in the year under review and it could not be accepted in audit.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.131,077 had been paid by the Company in respect of a settlement of hotel bills of the Ministry of Plantation Industries.

- (b) Despite an official vehicles had been assigned to the Chairman of the Company, the total expenditure incurred for the supply of fuel to his private vehicles during the year amounted to Rs.196,115.

4.5 Apparent Malpractices

The following observations are made.

- (a) An Assistant Estate Superintendent in the Pitakanda estate had entered the name of a female employee who had not served in the residential service, in the checkrall of the Dabaragala Part of estate and taken her salary of Rs.38,922 fraudulently in the year 2016.
- (b) Two labourers who had performed the duties as the residential employee in the official quarters of the Estate Superintend of Bandarapola estate in the year 2016 had taken a sum of Rs.211,568 as their salaries despite they did not perform duties in that official quarters.

4.6 Uneconomic Transaction

The following observations are made.

- (a) Despite an insurance cover had been taken for cash in transit “billet” allowance of Rs.555,520 to the officers who brought the money and a sum of Rs.486,000 to the police officers had been paid.
- (b) Instead of using the estate supervisory vehicles to bring the money, a sum of Rs.1,521,621 had been incurred in the year under review for vehicles obtained on hire basis.

4.7 Identified Losses

The following observations are made.

- (a) A jack tree with about 5 feet circularity fell down in the Millawana estate had allowed to be decayed without being sold.
- (b) As a result of sale of 949,798 kg of tea leaves to 5 factories during the year under review at a price less than the fair price payable to one kg of tea leaf, an estimated sale income of Rs.964,522 had been deprived of by the company.

4.8 Resources of the Company given to other Institutions

The following observations are made.

- (a) Eventhough lands valued at Rs.963,683 had been released to some other institutions and brought to accounts in the years 2002 and 2008, it had not been indicated under note 01-01 of the financial statements that to whom and to what extent those lands had been released.
- (b) Eventhough lands belonging to the company, 13.69 hectares in extent had been released to the public sector in the years 1995, 2000 and 2009 they had not been posted to the books.
- (c) According to the note 01 of the accounts, the value of lands, 44.22 hectares in extent which had been released to the Public Institutions had not been valued and adjusted to the accounts.

4.9 Personnel Administrations

The following observations are made.

- (a) Instead of recruiting a General Manager in terms of the recruitment procedure an unqualified person had been appointed in April 2015 on acting basis.
- (b) In excess of the approved cadre an Estate Superintendent and an Assistant Estate Superintend had been recruited.
- (c) Without the approval of the Department of Management Services three persons had been recruited for 3 posts, namely. Confidential Secretary, Manager (Marketing) and the Manager (MIS) in addition to the approved cadre.

4.10 Unresolved Audit Paragraphs

The following observations are made.

- (a) Action had not been taken to shift the Colombo Head Office to the Operating Office of the Company in Matale Construction work of which was completed in the year.
- (b) The Company had failed to take action against the lessee who had defaulted the payment of taxes in the Nelaula Estate, 358 hectares in extent which had been leased out and to take legal action against encroachers.
- (c) While a court proceeding is being going on in respect offences committed by 2 Estate Superintends action had been taken to re-employee them.
- (d) A report in respect of the transfer of resovire located at Sembuwatta estate to the Co-operative Society and the validity of the agreement relating to the boat service and the proper utilization of cash by the estate and the Co-operative Society had not been presented.

- (e) The report relating to the loss incurred in tendering cloves in Ratwatta estate along with the evidence of 6 tenders.
- (f) According to the scheme of Recruitment qualifications required for an Assistant Estate Superintendent were an agriculture Degree from a recognized university with an experience of one year at a supervisory level in tea, rubber, coconut industry etc. Instead a person who had passed only G.C.E. (Ordinary Level) had been appointed as an Assistant Estate Superintendent.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. The financial statements and the Draft Annual Report should be submitted to the Auditor General within 60 days of the closure of financial year. Nevertheless, the financial statements had been presented after delay of 9 months and 14 days.

5.2 Tabling the Annual Reports

The annual reports for the years from 2011 – 2014 had not been tabled in parliament even by 31 December 2015.

6. Systems and Controls

Weaknesses in systems and controls observed in audit had been brought to the attention of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Control

Observations

- | | |
|-----------------------------------|--|
| (a) Fixed Assets Management | Release of lands, maintenance of vehicles, vehicle insurance at a weaker level. |
| (b) Budgetary Control | Although targets had been set by the Budget, the supervisory process of achievement of them at a weaker level. |
| (c) Debtors and Creditors Control | Not taken action to settle or recover the long term loan balances. |
| (d) Personnel Administration | Recruitments had been done outside the scheme of recruitments. |

