

## **Elkaduwa Plantations Limited - 2016**

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The audit of financial statements of the Elkaduwa Plantations Ltd. for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My observations on the performance of the Company for the year under review, which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Responsibility of the Board of Directors for the Financial Statements**

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Board of Directors 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 Board of Directors 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**

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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. 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**

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- (a) In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the useful life for non-current assets had not been reviewed annually. As such, 29 motor vehicles costing Rs.13,535,257 had been fully depreciated. Nevertheless, they had still been in use.

Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

- (b) In terms of paragraph 46 of Sri Lanka Accounting Standard 39, financial assets should be accounted at the fair value. However, fixed deposits valued at Rs.44,372,810 belonging to the Company had not been brought to account at the fair value after the year 2013.
- (c) In terms of paragraph 12 of Sri Lanka Accounting Standard 41, biological assets shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. However, the value of Rs.278,565,316 indicated as consumable biological assets as at 31 December 2015 without measuring those assets as at 31 December 2016, had been indicated as assets as at 31 December of the year under review.
- (d) No specific policy had been recognized for identification of the period of maturity of tea, rubber, coconut and other cultivations and those cultivations costing Rs.125,128,573 which had lapsed the period of maturity, had been recorded under immature cultivations even by the end of the year under review. As a result, the relevant depreciation had been omitted from accounts.
- (e) The debentures valued at Rs.5,000,000 issued in the year 1995 to the Employees Trust Fund by the Company were due to be released in the year 2000. However, they had not been released even at the date of this report and no disclosures thereon had been made as well in the financial statements. Moreover, the interest payable from 15 June 2000 had not been brought to account and as such, the financial statements had been understated by interest amounting to Rs.11,880,000 payable as at 31 December of the year under review comprising the expenditure on interest for the current year amounting to Rs.720,000.
- (f) The coconut cultivation of the Ratwatte Estate costing Rs.6,396,615 commenced in the year 2007 is a failure at present. However, it had been shown under immature bearer biological assets in the statement of financial position instead of taking action to write off the relevant cost from accounts.
- (g) According to the statement of financial position as at 31 December 2016, differences of Rs.5,538,252 and Rs.147,343 were observed between the balances shown as receivables to the Company from the Janatha Estates Development Board and the Sri Lanka State Plantations Corporation and the confirmations of balances obtained from those institutions respectively.
- (h) A difference of Rs.3,977,943 was observed between confirmations of balances obtained from that institution relating to the contributions payable as at 31 December 2016 to the Plantation Human Development Trust Fund and the balances of accounts of the Company.
- (i) The bank had confirmed that there was no loan balance payable as at 31 December 2016 in respect of the loan amounting to Rs.15,000,000 obtained from a state bank in the year 2011 by mortgaging property belonging to the Selagama Estate. Nevertheless, according to the accounts of the Company, loans amounting to Rs.2,778,246 had been shown as a liability payable.

- (j) Even though the buildings constructed in the year 2009 for the Project on Farming of Dairy Cattle by incurring a cost of Rs.2,125, 614, had been capitalized under the said Project, it had been capitalized again as development expenditure on lands and buildings in that year and as such, the value of buildings had been over computed by that amount.
- (k) Interest income from fixed deposits amounting to Rs.2,856,838 relating to the year 2015 and prior years had been brought to account as an interest income relating to the year under review while an interest income of Rs.2,332,946 relating to the year under review had not been accounted.
- (l) Even though the interest income of Rs.2,340,664 received in cash in the year under review had been deducted and shown under adjustments in preparing the cash flow statement, that income had not been shown as a cash inflow under cash flow generated from investment activities.
- (m) Even though the value of provision for doubtful debts remained at the end of the year under review amounted to Rs.4,186,615, evidence was not made available to Audit on the manner in which that value was computed and to confirm the value of debtors relating thereto.
- (n) Ten balances of accounts amounting to Rs.3,777,650 not included in trade and other accounts receivable and payable, had been brought to account under accounts receivable and payable.
- (o) Confirmation of balances relating to debtors and creditors balances of Rs.77,591,127 and Rs.23,222,650 respectively had not been made available to Audit.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the paragraph of basis for qualified opinion 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Report on other Legal and Regulatory Requirements**

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As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of opinion and the scope and limitations of the audit are as stated in this report.
- (b) In my opinion,
  - I have obtained all the information and explanations that were required for the audit, subject to matters described in the paragraph of basis for qualified

opinion and as far as appears from my examination, proper accounting records have been kept by the Company,

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

## 2.2 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following non-compliance with Laws, Rules, Regulations etc. were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliances</b>
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(a) Paragraph 5(I) of Part II of Payment of Gratuity Act, No.12 of 1983	Gratuity should be paid within one month to a workman who has resigned from the service, retired or legally terminated from the service, after being employed for a period of service of not less than five completed years under an employer. Even though a period of 01 month to 15 years had lapsed after resignation of 998 workmen who had been employed in the Company for a period over 05 years, payment of gratuity had not been made to those workmen. As such, the gratuity payable including surcharge as at 31 December of the year under review had been Rs.87,003,386.
(b) Public Finance Circular No.02/2015 of 10 July 2015	The disposal of decayed and unserviceable motor vehicles belonging to Government institutions should be identified as a prior purpose and it had been pointed out by this Circular that those motor vehicles should be disposed of within 03 months. However, action had not been taken even by the end of the year under review to dispose of 12 unserviceable motor vehicles by the end of the year 2015.
(c) Public Enterprises Circular No. PED 1/2015 of 25 May 2015	A sum of Rs.696,000 had been paid as transport and fuel allowance to two officers who are not entitled to official vehicle allowance.
(d) Public Enterprises Circular No.95 of 14 June 1994 and Management Services Circular No.39 of 26 May 2009	The recommendation of the Salaries and Cadre Commission and approval of the Department of Management Services should be obtained before paying salaries and allowances not included in the approved salaries and allowances. However, a sum of Rs.838,080 had been paid as labour allowances in

the year under review to the Chairman and the General Manager of the Company without obtaining permission.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the company for the year under review had been a deficit of Rs.62,756,178 as compared with the corresponding deficit of Rs.26,922,928 for the preceding year, thus indicating a decline of Rs.35,833,250 in the financial result for the year under review as compared with the preceding year. The increase in the loss occurred from the cultivation of main crops by Rs.25,698,422 as compared with the preceding year had been the main reason for the decline in the financial result.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Function and Review**

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##### **4.1.1.1 The following observations are made relating to achievement of budgetary targets of the year under review.**

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(a) Even though the estimated green tea yield of the Ratwatte Estate for the year under review stood at 725,000 kilograms, the actual yield stood at 421,147 kilograms. Accordingly, 42 per cent of the anticipated target had not been achieved in the year under review.

(b) Even though the quantity of dry cocoa seeds of the Hapugaspitiya Estate for the year under review stood at 5,000 kilograms, only a yield as less as 15 per cent of the anticipated yield had been received in the year under review due to the lapse of useful life span of cocoa plants and failure in proper use of chemical fertilizer for plantations.

##### **4.1.1.2 The following observations are made relating to the performance of provincial estates.**

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###### **(a) Ratwatte Estate**

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(i) The yield of tea leaves of the estate in the year under review as compared with the preceding year had declined by 333,404 kilograms representing 44 per cent. Out of the lands of 173.30 hectares in extent, an extent of 43 per cent of land had not been used for cultivation and failure in removing old plantations and focusing on new plantations and failure in using chemicals and fertilizer continuously had resulted in the decrease in the yield.

(ii) The quantity of tea leaves produced in the year under review from the extent of 108.42 hectares of land provided to out growers of the Ratwatte Estate

stood at 58,529 kilograms and it was a decrease of 29,676 kilograms as compared with the quantity of tea leaves produced in the year 2015.

- (iii) According to the Technical Statement issued in the year 2015 by the Department of Export Agriculture, the average yield of a mature creeper of pepper should be between 1 kilogram and 2.5 kilograms of dry pepper per year. Nevertheless, that quantity of the estate in the year under review stood at a low value between 0.3 kilograms and 0.5 kilograms. The pepper yield of the Company had decreased due to failure in upkeep and maintenance of cultivations according to the standards of the Department of Agriculture.

**(b) Hapugaspitiya Estate**  
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**(i) Rubber Cultivation**  
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According to data published by the Department of Rubber Development, the annual yield of rubber latex from a hectare should be 819 kilograms. However, that value of the estate had been at a very low level of approximately 278 kilograms. The lapse of the useful life span of about 90 per cent of cultivation of mature rubber and failure in removing old cultivations and focusing on new cultivations and even though there should be 550 rubber plants for a hectare, this quantity in the estate remaining at a very low amount of 215 had affected this quantity.

**(ii) Cocoa Cultivation**  
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According to standards of the Department of Export Agriculture, the annual quantity of dry seeds of cocoa in a cocoa plant should be between 0.9 kilograms and 1.3 kilograms. However, that quantity was as low as 100 grams in the estate. Even though the useful life of a cocoa plant was between 25 years and 30 years, out of yielding 28,100 cocoa plants, 20,513 cocoa plants representing 73 per cent were plants expired of useful life span and had not used fertilizer and chemicals continuously. As such, it had affected a low yield.

**(iii) Coconut Yield**  
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The following observations are made.

- About 50 per cent of the coconut cultivation of the estate is unyielding and chemical fertilizer as well had not been used. As such, in accordance with the standards of the Coconut Research Institute, the annual average yield of a tree was 72 coconuts. However, that yield of the estate had been in a low range of 04 and 31.
  
- The number of coconut trees that should exist in an extent of a hectare stands at 158 according to the standards of the Coconut Research Institute. However, that number had ranged between 3 and 120 in 05 plots of the estate. Coconut plants had not been planted

for the shortage of plants and action had not been taken to protect the existing cultivations.

- Thirty one per cent and 12 per cent of the coconut cultivation and rubber and teak cultivations commenced in this estate by the Company during the period from the year 2007 to the year 2015 had been destroyed by 31 December of the year under review. Matters such as failure in providing adequate water supply, weeding and failure in using fertilizer and chemicals continuously had affected this. However, an expenditure totalling Rs.14,160,233 had been incurred as at 31 December of the year under review for these cultivations from the year 2007 up to 31 December of the year under review.

#### **4.2 Management Activities**

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The following observations are made.

- (a) An extent of 3 acres 2 roods and 22 perches of the Selagama Estate had been leased out to a private company for a period of 30 years from 01 June 2006 and in terms of that agreement, it was not permitted to sub-let without written permission of the Company. However, the lessee had sub-let the relevant land in the year 2012. Accordingly, action had not been taken thereon even by the end of the year under review.
- (b) According to the sub-lease agreement entered into with the lessee in the year 2013 for leasing out the tea factory owned by the Pansalthenna Estate, a refundable interest free deposit of Rs.1,908,000 should be obtained from the lessee. However, deposit money had not been obtained even by the end of the year under review.
- (c) A sum of Rs.330,150 collected from the Head Office of the Company and the estate workers as flood relief had been deposited in a bank account of the Company in the year under review and the said monies had been handed over in January 2017 to the Chairman of the Company. Nevertheless, the registers on flood relief had not been available with the Company.

#### **4.3 Operating Activities**

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In the census of clove plants carried out in the Elkaduwa Estate in the year under review, the numbers which had been fixed in the year 2015 had been removed and new numbers had been fixed. Moreover, 3,470 clove plants which had existed in the year 2015 had decreased by 1,523 plants, thus making the number of clove plants to 1,947 in the year under review. According to the monthly progress reports of Field officers of the Estate, no information had been reported on the destruction and removal of clove plants even up to the date of the relevant census. No appropriate action had been taken thereon by the Company.

#### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) A feasibility study and geological surveys have been commenced in the year 2014 for mining of graphite in a land of one acre in extent in the Nalanda Estate and spent a sum of Rs.21,407 therefor by 31 December 2016. However, the Management of the Company had not taken action to commence mining of the said graphite even up to the end of October 2017.
- (b) A paddy land of 5.04 hectares in extent belonging to the Ratwatte Estate and a cultivable land of 13.66 hectares in extent had remained idle without being made use of either for agricultural purposes or for giving out on lease basis.

#### **4.5 Uneconomic Transactions**

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The Company had not properly remitted contributions monthly for the Employees' Provident Fund, Employees' Trust Fund, Estate Workers' Provident Association and the Sri Lanka Planters' Association since a period of 15 years and as such, penalties of Rs.96,445,172, Rs.9,470,126, Rs.2,855,169 and Rs.2,449,229 respectively had remained payable by the year under review.

#### **4.6 Identified Losses**

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According to the Minor Crops Price List of the Department of Export Agriculture, the average market price of one kilogram of Dry Pepper was Rs.1,398 as at 31 May 2017 and the Ratwatte Estate had sold one kilogram at the rate of Rs.850 without evaluating those prices. As such, the income deprived of to the Company was Rs.206,048.

#### **4.7 Staff Administration**

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Four persons had been recruited for the new posts of Confidential Secretary, Manager (Marketing), Public Relations Officer and Manager (MIS) in addition to the approved cadre without proper approval of the Department of Management Services and paid a sum of Rs.2,460,576 in the year under review as salaries and allowances. Moreover, two officers had been appointed on contract basis for the post of General Manager of the Company without appointing an officer on permanent basis since the year 2012.

#### **4.8 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) Steps had not been taken to shift the Colombo Head Office to the operation offices in the District of Matale of the Company, of which constructions had been completed in the year 2003. As such, that building is under dilapidation.



- (b) The total extent of land of the Nelawulla Estate stood at 354.75 hectares and a land of approximately 229.75 hectares in extent is encroached and action had not been taken up to 31 December 2018 to evict the encroachers and to obtain this land for the use of the Company.
- (c) Action had been taken to reinstate two Superintendents of Estate in their posts while a case was on trial relating to the offences committed by the said two officers.
- (d) A report on evidence should be submitted to the Committee on Public Enterprises by summoning the 06 Tenderers relating to the financial loss of Rs.1.5 million in carrying out the Tender of sale of cloves of the Ratwatte Estate. However, the relevant report had not been submitted by the Company.

## 5. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of the following areas of systems and controls.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Fixed Assets Management	Weak level in acquisition of lands by external parties, maintenance of motor vehicles, insurance activities and tea factories
(b) Budgetary Control	Weaknesses in the methodology and supervision of achieving targets despite having set out targets by the budget.
(c) Debtors Control and Creditors Control	Weaknesses in the process of settlement and recovery of long term loan balances
(d) Human Resources Management	Recruitments had been made contrary to the approved Scheme of Recruitment.