

Kurunegala Plantation Limited - 2016.

The audit of the financial statements of the Kurunegala Plantation Limited 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 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 comments and observations on the operations of the Company of the year under review which I consider should be presented to Parliament in terms Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board's Responsibility for the Financial Statements

The 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 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. 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 opinion.

1.4 Establishment and the Ownership of the Company

Kurunegala Plantation Limited is a limited liability Company incorporated under the Companies Act No. 17 of 1982 in terms of the provisions of the Conversion of Corporations and Government owned Businesses undertakings into Public Companies Act No. 23 of 1987

and this had been registered under the Act No.07 of 2007. The Company operates as a Fully Government owned company being the Secretary to the Treasury of Sri Lanka as the Single Shareholder.

1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.3 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.3 of this report the financial statements give a true and fair view of the financial position of the Kurunegala Plantation Limited as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made

(a) Sri Lanka Accounting Standard 16

As useful life of the non-current assets had not been reviewed annually, fixed assets costing Rs.30,239,420 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in estimation in terms of Sri Lanka Public Sector Accounting Standard 08.

(b) Sri Lanka Accounting Standard 19

The Company had not maintained the assets planned for the minimization of the risk up on the post employees benefit liabilities.

2.2.2 Accounting Deficiencies

Lease income of Rs.310,049 received relating to the preceding year had been brought to account an income of the year under review.

2.2.3 Unexplained Differences

Although the Ministry of Plantations had informed that a sum of Rs.138,979,605 remained recoverable to the Janatha Estate Development Board from the Kurunegala Plantation Ltd. in respect of 1750.88 hectares of land released by the Company for various Government purposes, according to the financial statements of the Kurunegala Plantation Ltd., there remained a future lease rental interest of Rs. 19,051,007 payable to the Janatha Estate Development Board.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items of accounts had not been furnished to audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
(a) 550.88 hectares of lands released lands.	16,214,000	Register of release of lands.
(b) 6722 hectares of lands received on lease rent basis.	189,137,238	Deeds and the supporting documents relating to the lands.

2.3 Accounts Receivable and Payable

According to the Rule No.21 relating to the auction of fresh coconuts of the Coconut Development Authority, the purchaser who purchase the parcels of coconuts should settle the due amount within 35 calendar days, whereas the Company had failed to recover a sum of Rs.2,205,284 remained recoverable relating to 51 stocks of coconuts purchased by 03 purchasers during the period from 2011 to 2016.

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

The following non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations etc.

Non-Compliance

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| (a) Management Services Circular No.39 dated 26 May 2009. | Although a sum of Rs.3,626,657 had been paid as the staff allowances for the officers from the Chief Executive Officer up to the Junior Management level officers of the Company during the year under review, recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services had not been obtained for the relevant payment. |
| (b) Section 8 (a) of the Instruction Letter No. I/A/4/34 dated 21 July 1995 on the Transfer of Government Lands issued by the Secretary to the President. | In transferring Government lands under the long term lease agreements, lease amounts should be revised once in 05 years in a manner not to be less than 150 per cent of the previously determined lease amount. Nevertheless, without being taken action accordingly, 07 properties, the annual lease rent of which amounted to Rs.871,110 had been given on lease based on the initial lease amount. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review was a surplus of Rs.126,577,293 as compared with the corresponding surplus of Rs.155,115,879 for the preceding year, thus indicating a deterioration of Rs.28,538,586 of the financial results during the year under review as compared with the preceding year. The decrease in the coconut income by Rs.28,452,724 had mainly attributed to the above deterioration.

Analysis of the financial results of the year under review and four preceding years revealed that, the surplus of Rs.177,266,345 in the year 2012 had annually fluctuated and it had been Rs.126,577,293 in the year 2016. When readjusting the tax paid to the Government and the depreciation for the non-current assets to the financial results, the contribution of the Company amounting to Rs.282,739,524 in the year 2012 had gradually increased up to Rs.351,279,723 and it had decreased up to Rs.275,688,962 again during the year under review.

3.2 Analytical Financial Review

(a) When comparing statement of comprehensive income in the preceding year with that of the year under review, the following observations were revealed.

- (i) Although the number of coconuts sold during the year under review had increased by 2,572,329 nuts as compared with the previous year, the average sales value had decreased by 6.50 per cent and as a result, the operating income had decreased by 04 per cent in the year under review as compared with the year 2015.
- (ii) Since the market value of the consumable biological assets had decreased by Rs.24, 436,263 as compared with the preceding year, the other operating income of the year under review had decreased by 21 per cent as compared with the year 2015.
- (iii) Although the production of rubber had decreased by 3,698 kilogram during the year under review in comparison with the year 2015, the production cost had increased by 23 per cent as compared with the preceding year and as such the contribution made by the rubber production of the Company had further declined. Accordingly, contribution made by the rubber production had decreased by Rs.15,037,482 or 638 per cent during the year under review as compared with the year 2014.

(b) The gross profit margin of the Company which stood at 43 per cent in the year 2014 had decreased up to 36 per cent and 32 per cent during the years 2015 and 2016 respectively.

- (c) A sum of Rs.450,000,000 had been shown as the short term investments in the current assets in the year under review and it had been Rs.415,000,000 in the year 2015. Further, the current ratio and the quick ratio of the year under review had been 7 and 6.7 respectively. Accordingly, it was observed that the Company was maintaining an additional working capital and it had been invested in short term basis and attention had not been paid on investing them in the investments capable of gaining higher benefits long- termly .

4. Operating Review

4.1 Performance

The vision of the Company was to manage the plantation and other agri business productively, profitably and sustainably through effectively harnessing natural, physical and human resources in an environmental friendly and socially responsible manner to the benefit of all stakeholders and the country at large. The following observations are made on the achievement of the above objectives.

- (a) In the sale of sand and sandy soil, the Company had not taken action for the betterment of the beneficiaries and the entire country. The following observations are made in this connection.
- (i) In calling for tenders for 1500 cubic unit of sand of 02 estates and 4500 cubic unit of sandy soil existed at the Mahayaya Estate, assistance of a relevant Technical Officer had not been obtained for the measurement of sand and sandy soil existed at the relevant places and the Tender Committees had called for tenders based on an estimate prepared by the Superintendent of the relevant estate and sold sand and sandy soil at different price ranges.
 - (ii) Although the sand mining in the Kuda Oya flowing through the Dodamgaslanda Estate cannot be carried out by another party without the permission of the Company, the Company had granted approval for sand mining at a request made by the political authority. The Company had decided to recover transport charges only at the rate of Rs.800 per one cubic unit for 2000 cubic unit of sand according to an estimate presented by the Estate Superintendent.
 - (iii) According to a licence issued by the Central Environmental Authority, mining of sand had been limited to 25 cubic units, whereas the Company had allowed to mine 171 cubic units of sand of the Kurunegala Estate within a period of 1 ½ months in the year 2017.
- (b) The following observations are made on the agriculture crops of the Dodangaslanda Estate.
- (i) Although coconut should be harvested once in 30 days as per the policy of the Company, coconut harvesting of the Dodangaslanda Estate had been

carried out during a period ranging from 37 to 60 days, the percentage of the fallen coconut had stood at 24 per cent.

- (ii) Although the standard number of coconut trees of a hectare of land is 158, coconut trees had been grown less than 17 per cent of the prescribed standard of trees at the Dodangaslanda Estate and the management had not taken action to grow coconut trees up to the standard number of trees.
- (iii) According to the standards of the coconut industry, the annual average yield of a tree should be 72 nuts. Nevertheless, this quantity ranged from 29 to 61 nuts at the Dodangaslanda Estate.
- (iv) According to the technical statements of the Export Agriculture Department, average yield of a pepper plant stands at 1.5 to 2.0 kilograms. Accordingly, harvest of 15107 kilograms of pepper should be reaped as per the number of plants grown in the estate, whereas harvest of approximately 2,685 kilograms of pepper only had been reaped by the estate during the year under review.

4.2 Management Activities

Out of 6772 hectares of land vested in the Company by the Janatha Estate Development Board on 18 August 1992, the extent of land released by the Company for other purposes had been 1750.88 hectares as at 31 December 2016. Although the approval of the Ministry and the Treasury had not been granted therefor, the Company had decided to halt the payment of lease rental to the Ministry of Plantations.

4.3 Operating Activities

The following observations are made.

- (a) Although the time durations related to shift the intercrops cultivated by the Company from the immature cultivation to matured cultivation had been declared by an Internal Memorandum of the Company, cultivations valued at Rs.8,159,210 had not been recognized as the matured cultivations although the period to be matured had elapsed as at 31 December of the year under review.
- (b) In the Mite Laboratory situated in the Katugampola Estate, 2,509 packets containing predator mite had been used as at 09 March 2017 for the control of Mite and the information relating to the confirmation of the matters such as on which date and which category those packets are applicable had not been stated on those packets. Therefore, it could not be established in audit whether those packets were unusable and expired packets.
- (c) While the coconut cultivations of the Company had remained under the Mite menace, the process of preparation of predator mite in the Katugampola Mite Laboratory had been discontinued after 04 November 2016. In an instance where the Mite menace had gradually spread in the estates, the management had not paid attention on not producing the predator Mites nearly about 4 months.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) The land of 40 acres in extent belongs to the Laxmi Division of the Katugampola Estate for which the approval of the Ministry of Plantations had been received to transfer the same to the private parties as a statutory determination from the year 2008 had remained idle over a number of years without being used for any purpose.

- (b) A rock situated on the boundary of the Kithuakele Division belongs to the Katugampola Estate was being crushed by an external party over a long period of time and the Company had not taken action either to institute legal action against the damage caused to the estate as a result of crushing the relevant rock within the land belonging to the estate or to recover a lease amount for the use of the land of the estate.

4.5 Staff Administration

The approved and actual cadre of the Company as at 31 December of the year under review stood at 252 and 228 respectively. Accordingly, 26 posts of tertiary level including 14 posts of Officers in Charge which are directly involved in the operations of the estates of the Company and 03 posts of secondary level had remained vacant by the end of the year under review and 05 posts of primary level remained in excess.

5. Systems and Control

Weaknesses in systems and controls observed during the course of audit were 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 System and Control	Observations
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(a) Fixed Assets Control	Continuously releasing the lands of the company for various purposes.
(b) Budgetary Control	Although targets had been set by the budget, the process of the achievement of those targets remained at a poor level.
(c) Debtors and Creditors Control	Action had not been taken to settle or recover the long term loan balances .
(d) Staff Administration	As the age of most of the labourers is above 50 years, there is a risk relating to the recruitment of labourers in future.
(e) Plantation Management	Decreasing the harvest of a coconut tree, not implementing the coconut replanting plans, not applying the coconut fertilizer on scientific basis and destruction of intercrop plants.