Sri Lanka State Plantations Corporation – 2016

The audit of financial statements of the Sri Lanka State Plantations Corporation 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the State Agricultural Corporations Act, No. 11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report and in the Report on the Transactions issued to the Chairman of the Corporation on 20 August 2017.

1.2 Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of the 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 Centre'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 Centre'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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka State Plantations Corporation 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 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 16

Expenditure of Rs.2,109,964 incurred on repairs and maintenance of motor vehicles and buildings by the Corporation in the year under review had been capitalized not complied with the Paragraph No.12 of the Standard.

(b) Sri Lanka Accounting Standard 39

According to Paragraph 46 of the Standard, fixed deposits should be valued at fair value and brought to account. Nevertheless, fixed deposits amounting to Rs.7, 431,000 existed as at the end of the year under review had not been valued at fair value and brought to account.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The value amounting to Rs.4,364,171 of the tea and other nurseries not physically existed as at 31 December of the year under review had been included in the closing stock and as such, the value of closing stock had been overestimated by the same amount.

(b) Tea, rubber and other nurseries valued at Rs.1,641,197 which were older than 05 years and could not be planted and tea stocks of Rs.1,858, 500 destructed due to fire broke out in the year 2013 had been included in the closing stock of the year under review and as such, the value of closing stock had been overestimated by the same amount.

(c) The lease rent of Rs.900,000 received in the year under review had been credited to the Deferred Asset Account instead of accounting as income. As such, the income and the cost of deferred assets had been understated by the same amount.

(d) A sum of Rs.1,000,000 deposited in the year 2011 but not brought to account under fixed deposits had been withdrawn in the year under review. Nevertheless, the said value had been credited to a Control Account in the under review without accurately identifying the accounts to be credited, thus the balance in the Control Account had been overstated by the same amount.

(e) Expenditure of Rs.1,353,083 on tea nurseries and maintenance of buildings shown under capital work- in- progress capitalized in the year under review, had been shown as a cash-in-flow under investment activities in the cash flow statement. As such, the net cash flow received from investment activities had been overstated by the same amount.

(f) A sum of Rs.52, 306,107 paid for Employees Provident Fund and Employees Trust Fund in the year under review had been shown as a cash-out-flow under investment activities in the cash flow statement. As such, the net cash flow received from investment activities had been overstated by the same amount.

(g) Expenditure on overdraft interest of Rs.8,233,725 pertaining to the year under review had not been brought to account.

(h) In accounting the gratuity payable for the year under review, a sum of Rs.48,497,486 had been debited to the Provision for Gratuity Account while only a sum of Rs.31,868,678 had been credited to the Gratuity Payable Account. As such, the balance of the Gratuity Payable Account had been understated by Rs.16,628,808.

2.2.3 Unexplained Differences

The following observations are made.

(a) According to the statement of financial position as at 31 December 2016, the balance payable to the Janatha Estates Development Board amounted to Rs.96,041,073 whereas the said balance was Rs.119,362,386 as per the financial statements of the Janatha Estates Development Board. Thus, an unexplained difference of Rs.23,321,313 was observed.

(b) Even though the trade and balance payable as per ledger accounts as at 31 December of the year under review amounted to Rs.1,229,794,553, the said balance was Rs.1,239,804,480 as per the financial statements. Thus, a difference of Rs.10,009,927 was observed.

2.2.4 Lack of Documentary Evidence for Audit

The evidence indicated against following items of account was not made available to audit and as such those could not be satisfactorily vouched or accepted.

	Item of Account	Value (Rs.)	Evidence not made available
(a)	Biological Assets	3,452,008,706	Assessment Reports of Timber Trees
(b)	Lease rent income receivable	15,780,848	Lease agreements and age analysis of outstanding lease rents

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year ended 31 December 2016 had been a loss of Rs.150,916,820 as compared with the corresponding loss of Rs.222,236,596 for the preceding year, thus indicating a decrease of Rs.71,319,776 in the loss of the year under review as compared with the preceding year. The decrease in sales cost by Rs.67,788,918 in the year under review as compared with the preceding year had been the main reason for the above decrease in the loss.

An analysis of the financial results of the year under review and 04 preceding years revealed a surplus of Rs.1,464,302,758 in the year 2012 and it had decreased to Rs.233,346,559 in the year 2013. A slight improvement in the surplus was observed in the year 2014 and in the year under review as compared with the preceding year while the surplus of the year under review amounted to Rs. 256,171,541. Nevertheless, in re-adjusting the employees remuneration and depreciation on non-current assets to the financial result, the contribution in the year 2012 amounting to Rs.11, 464,302,758 had decreased to Rs.256,171,541 as at the end of the year under review.