

Chilaw Plantations Limited – 2017

The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 operations of the Company during the year under review which I consider should be presented to Parliament in terms of Section 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 misstatement 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 the 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

- (a) Eventhough as per the statement of financial position as at 31 December 2017 Receivable amounts from the Janatha Estate Development Board and Sri Lanka State Plantation Corporation was mentioned as Rs.47,627,397 and Rs.23,610,959 respectively, as per the balance confirmation letters dated 31 December 2017 of those institutions that values was Rs.63,672,397 and Rs.31,610,959 respectively.

- (b) The relevant plans had not been available with the Company for 5733 hectares leased lands valued for Rs.142,502,287 belonged to the Company.
- (c) The balance confirmation letters to get confirm receivable balances on short term loans given by the Company to Sri Lanka Rubber Manufacturing and Export Corporation Ltd and to the Ministry of Public Resources and Enterprise Development in 2010 amounting to Rs.10,000,000 and Rs.15,000,000 respectively had not been furnished to the audit.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph of the Basis for Qualified Opinion in this report, the financial statements give a true and fair view of the financial position of the Chilaw Plantation Limited as at 31 December 2017 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

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

- (a) The basis of opinion and scope and limitations of the audit as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appeared 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-compliance with Laws, Rules, Regulations and Management Decisions etc.

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

Reference to Laws, Rules and Regulations etc.	Non-Compliances
(a) Establishment code of the Democratic Socialist Republic of Sri Lanka (i) Paragraph 3.1 of Chapter 7 (ii) Paragraph 7 of the Chapter V	An additional Salary of Rs.3,032,873 had been paid to 06 officers from 2008, recruited from the year 2008 to year 2014, due to keep them in a high steps instead of keep in the initial step in the salary scale. An officer absent without obtaining leave should be treated as vacation of the post and should be terminated from the service since that day Eventhough an Assistant Estate Superintendent had not reported to the duties without informing

from 28 November 2016, action had not been taken to terminate him by issuing a vacating of post letter even up to the date of this report.

- (b) Management Services Circular No.39 of 26 May 2009. The recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services should be received to pay salaries or allowances which was not included to the approved salaries or allowances but contrary to that a sum of Rs.6,940,955 had been paid as 'Labour allowances' without taking approval to 21 officers from Junior Level to the Chief Executive officer excluding superintendents of Estates and Assistant Superintends of Estates during the year under review.
- (c) Public Enterprises Circular No.01/2015 dated 25 May 2015
- (i) According to the circular, for additional fuel taken by the Chairman exceeding the approved limit the approval of the Secretary of the Ministry and the approval of the Board of Directors should be taken but a sum of Rs.340,912 had been paid by the Company for 3,082 Litres taken by the Chairman exceeding the approved limit, without approval.
 - (ii) A sum of Rs.135,224 had been paid for 1,156 fuel litres to the officer who were not entitled for fuel allowances during the year under review.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial results of the Company during the year under review had resulted in a surplus of Rs.81,446,237 as compared with the surplus of Rs.69,672,008 for the preceding year, thus showing a improvement of Rs.11,774,229 in the financial results during the year under review as compared with the preceding year. The above improvement was mainly attributed to the increase of the biological assets valuation profit by Rs.15,332,458 during the year under review as compared with the preceding year.

In analyzing the financial results of the year under review and 05 preceding years, a deficit of Rs.62,071,904 was observed in the year 2014 and the surpluses of other years had gradually decreased compared to the year 2012. The employees' remuneration had continuously increased since 2012 and even though the profit had decreased the year under review, the tax liability in the year had increased by Rs.5,534,003 compared to 2015. The minimum

contribution of Rs.131,080,449 is reported in the year 2014 and contribution in 2016 was Rs.304,554,146.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

The following observations are made.

- (a) Eventhough the actual coconut yield of the year under review compared to the estimated yield had decreased by 32 per cent and compared to the preceding year yield it had decreased by 29 per cent during the year under review, the cost of sales of the company increased by 33 per cent compared to the preceding year. It was observed that out of the matured cultivation, 38 per cent cultivation was over 50 years and the failure to follow the strategies to meet drought (sanding coconut husks) caused the decline in yield.
- (b) According to the norms of the Coconut Research Institute the annual normal yield of a coconut tree planted in standard way should have 72 Coconut nuts, but this value in 06 estates managing by the company had ranging in between 29-67.
- (c) The number of tall Coconut trees of Companys' ranged between 01-08 per cent of the yielding trees and to reduce the percentage of number of fallen nuts it had been decided by the management to yield coconut harvest monthly. Nevertheless, the number of fallen coconut was 3,906,827 and it represented 30 per cent of the total yield. Accordingly while comparing the number of tall trees in 06 estates and the percentage of fallen coconut ranged in between 66-95 nuts per tree. As such, it was observed that yield of a tall tree is higher than the actual yield of a tree in relevant estates.
- (d) Although according to the norms remained in the field coconut trees required to be stood in a hectare of land is 158. But all estates of the company that figure had ranged from 112 to 147 trees except the Diulapitiya estate. Accordingly, remaining less trees than the standardised trees to be remained in the estates of the Company being the main reason to decrease the yield.
- (e) It was observed that, 108,307 coconut trees recognized as matured trees, under the matured cultivation, in 06 estate controlled by the company had not in a position to bear the nuts. According to the standard yield of a tree, around 7,798,104 nuts yield should not be received from those trees annually.

4.2 Management Activities

The following observations are made.

- (a) Eventhough more than four years had lapsed since the case was taken up for stealing 3380 coconut nuts in the year 2011 in Jasintha division in Thambapanni estate, action had not taken to recover the loss of the fraud amounted to Rs.105,175 which could be claimed from the Sri Lanka Insurance Corporation.

- (b) Eventhough Company had entered to an agreement with a private company to pay Rs.4,850,126 for the installation of an oil extraction system in 2010, the private company was unable to install the machine to get the production capacity as per the agreement after lapsed 05 years from the inauguration of the project. As such, the Company had not taken action to cancel the agreement and recover the loss or to complete the job through any other supplier.
- (c) Due to the company had not taken action to apply mitta predators in the affected fields, 10,500 mitta predators produced in the Mitta Laboratory in Palugaswewa estate in 2017 had expired even up to 10 August 2018.

4.3 Operating Review

The following observations are made.

- (a) According to the guidance of the Coconut Research Institute, mitta predators should be applied at one bag for every 4 mitta affected tree during a period of every 2-3 months within 02 years to control mitta. Nevertheless, out of 04 fields mitta predators issued in the Palugaswewa estate, mitta predators had not been re-issued in 02 fields during the year under review and the second issue had been done 02 more than 04 months. It was observed that, due to the failure in applying mitta predators in proper way the disease could not be controlled.
- (b) 139,682 Coconut plants had been cultivated in 06 estates of the Company during the year under review. But, the activities such as application of fertilizer weeding and watering had not properly carried out for the cultivation as planned and 25 per cent equalent to 35,555 plants were destroyed by the end of the year under review.
- (c) Eventhough Diulapitiya estate had 68.33 hectares of paddy fields, 64.62 hectares had been acquired by the tenant farmers but the management had not taken action to get back those lands under companys' administration. Further, other 3.71 hectares of paddy lands had not been utilized for effective matter or to give on lease basis.

4.4 Staff Administration

The following observations are made.

- (a) 23 vacancies under 11 designation titles and 05 excess staff under 02 designation titles in the approved cadre had at the end of the year and the Internal Auditor, two posts of Assistant Auditor and Deputy General Manager was included thereon.
- (b) The Company had incurred a sum of Rs.173,000 and published a paper advertisement on 25 July 2017 for calling applications for the posts of Audit Assistant and Management Assistants but action had not be finalized those recruitments even up to the end of the year under review. Further, 13 employees worked in head office and in estate office staff as training officers had been appointed to the estate staff as permanent staff and out of that 06 employees had been attached to the head office in June 2018.

- (c) Officer for 10 unapproved posts in the cadre including Assistant General Manager Engineering and Chief Internal Auditor which were not in the approved cadre had been recruited without approval of the salaries and Cadre Commission and the Department of Management Services.

5. Systems and Controls

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

Areas of Control -----	Observation -----
(a) Budgetary Control	Although targets had been set by the budget, the process relating to the achievement of those targets remained at poor position.
(b) Debtors and Creditors Control	Action had not been taken either to settle or recover the long term debt balances.
(c) Staff Administration	The majority of the present employees are over 50 years of age and due to not joining youth labourers to the service, there is a risk relating to the recruitment of new labourers in future.
(d) Plantation Management	Due to the matters such as decreasing of crop from a coconut tree, failure in implementing coconut replanting plans, failure in applying fertilizer on scientific basis, not adopting proper maintenance and control methods and lack of adequate water supply system, plants had destroyed and harvest of coconuts had decreased.