Elkaduwa Plantations Limited – 2017

The audit of financial statements of the Elkaduwa Plantations Limited for the year ended 31 December 2017 comprising 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 relating to the operation of the Company in the year under review which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this Report.

1.2 Board of Directors' Responsibility 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 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.

1.4 Basis for Disclaimer of Opinion

(a) Even though the interest income amounting to Rs.4,410,836 relating to the year under review had been recorded under the adjustments in the cash flow statements as per the Sri Lanka Accounting Standard 07, the cash flow in investment activities had been understated by that value not entered as interest income amounting to Rs.3,357,912 received in cash as a cash inflow under investment activities.

(b) The cash flow in operating activities had been overstated by a sum of Rs.1,833,956 due to deducting from the profit as a Non- Cash Item instead of adding to the profit in preparing the cash flow statement, the value amounting to Rs.916,978 written- off from the Differed Income in the year under review as per the Sri Lanka Accounting Standard 7.

(c) Even though a Differed Tax Liability should be identified for the temporary changes in all taxes as per the Paragraph 15 of the Sri Lanka Accounting Standard 12, the Differed Tax Liability amounting to Rs.34,339,662 relating to the year under review had not been identified and had not been stated in financial statements, as per the calculations of the Auditor.

(d) The interest expenditure amounting to Rs.12,600,000 payable from 15 June 2000 to 31 December of the year under review to the Employee Provident Fund by the Company relating to the Debentures valued at Rs.5,000,000 issued in the year 1995 had not been brought to account.

(e) Even though the period of maturity of Tea, Coconut, Rubber and other plantations remaining between a period ranging from 02 years to 06 years as per the Standards of the Industry, the cost amounting to Rs.149,745,255 which had been capitalized for the plantations initiated from the year 2002 to the year 2015 had not been identified and the amortization adjustments had not been made relating thereto, on the Company not having a specific policy to identify the period of maturity of the plantations relating to the Company.

(f) Even though the value of Jackfruit Plant had not been identified as Consumable Biological Assets by the Professional Valuers in valuing the consumable biological assets due to fulfilling the legal requirements being difficult for converting the Jackfruit Plant into Timber, a sum of Rs.115,109,263 had been stated as the value of the Jackfruit Plant by the Company and a sum of Rs.311,900,488 had been stated as the Consumable Biological Assets Value in the financial statements in the year under review.

(g) The Holder Biological Assets not being matured amounting to Rs.87,740,383 had not been identified under matured plantations even by the end of the year under review due to the Company not being acquired with the information relating to the value of the Holder Biological Assets not being matured amounting to Rs.87,740,383 included in the assets entrusted by the State Plantations Corporation in establishing the Company in the year 1993.

(h) Even though only a sum of Rs.2,954,419 should be stated as Related Parties' Transactions stated under Current Liabilities in the statements prepared as at 31 December of the year under review by the Company, a Debit Balance amounting to Rs.11,737,219 had been stated as Related Parties' Transactions due to a Debit value amounting to Rs.14,691,639 which remained not being settled in accounting the transactions which occur between the Head Office of the Company and the Estates, being included into it.

(i) Even though the Tea Plant Nurseries initiated in the period from the year 2001 to the year 2008 by 5 Estates of the Company were not in existence by the end of the year under review, the cost amounting to Rs.2,062,559 incurred in this connection had been included into the stock remained as at the last date of the year under review and had been brought to account.

(j) Even though the values that had been brought to account as receivables from the Janatha Estate Development Board and from the Sri Lanka State Plantations Corporation to the Company as per the statement of financial position prepared by the Company as at 31 December of the year under review had been sums of Rs.1,185,670 and Rs.1,768,749 respectively, a difference of Rs.7,538,252 and Rs.24,794 was indicated between the relevant differences due to those values of being Rs.8,723,922 and Rs.1,743,955 respectively as per the financial statements of the relevant Institutions.

(k) A difference of Rs.2,750,674 was observed due to stating the initial loan amounting to Rs.20,000,000 obtained in the year 2010 from the Chilaw Plantation Company Limited by the Company, being stated as a sum of Rs.22,750,674 in the financial statements by the end of the year under review.

(l) Documents such as the Register of Fixed Assets necessary for the confirmation if the value of property, plant and equipment costing Rs.96,476,872 and the Motor Vehicle Registration Certificates relating to the motor vehicles had not been maintained by the Company.

(m) Letters of Confirmation of Balance relating to the confirmation of debtors and creditors balances valued at Rs.72,586,179 and Rs.1,831,975 respectively had not been furnished to audit.

(n) Even though the Doubtful Debit Provisions Balance remained in the year under review had been a sum of Rs.4,186,615, the Debtors Register used to calculate that value had not been furnished to audit.

(o) Information relating to the confirmation of 10 Account Balances valued at Rs.3,777,650 entered under the Trade and Other Receivable Accounts and Payable Balances had not been furnished to audit.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph Basis for Disclaimer of Opinion of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.1.1 Report on other Legal and Regulatory Requirements

I state the following matters as ordered by Section 163(2) of the Companies Act, No.07 of 2007.

(a) The basis for opinion and the scope and limitations are as stated above.

(b) - that I have obtained all the information and explanations necessary for audit, and that the Company had not maintained proper Accounting Reports by the Company indicated by my examination,

- Accordingly, my opinion is that the financial statements of the Company complies 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

The following non- compliances with laws, rules and regulations were observed.

Reference to laws, rules and regulations	Non- compliance
(a) Sections 15 and 16 of the Employee Provident Fund Act, No.15 of 1958.	Even though the contribution money should be paid by the employer to the Employee Provident Fund before the last date of the next month, the contribution money relating to the Employee, a sum of Rs.4,331,277 had to be paid as surcharges for the years 2016 and 2017 due to not paying contribution money before the scheduled date by the Company.

(b)	Paragraph (i) of Part II of the gratuity Act, No.12 of 1983.	Even though gratuity should be paid within a month after either an Employee had resigned or after being retired, gratuity liabilities amounting to Rs.103,300,180, that is, the fees unpaid for 1,093 employees who had vacated from service from 01 April 1995 to 31 October 2017 had not been paid even by the end of the year under review.
(c)	Public Finance Circular No.03/2015 of 14 July 2015.	(i) Even though ad- hoc sub imprest should be settled as soon as the function is completed and even though the Advances valued at Rs.1,283,048 obtained in 14 instances in the year under review had lapsed over one year after the completion of the relevant function, action had not been taken to settle that money. (ii) Even though ad- hoc sub imprest up to the maximum of Rs.100.000 at a time could be provided to Staff-Grade Officers, Advances ranging from a sum of Rs.152,000 to a sum of Rs.304,000 had been provided by the Company in 4 instances exceeding that limit for two Staff-Grade Officers.
(d)	Management Services Circular No.39 of 26 May 2009.	Even though the recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services should be obtained before making the payment of the salaries and allowances not included in the approved salaries and allowances, a sum of Rs.1,045,930 had been paid to the Chairman of the Company and to the Acting General Manager as “labour allowances” without the relevant approval.
(e)	Public Enterprises Circular No.PED 01/2015 of 25 May 2015	The fuel allowance entitled monthly to the Chairman of the Company had been 170 litres and even though the approval of the relevant Secretary to the Ministry should be obtained in

	exceeding that limit, the Company had incurred a sum of Rs.519,090 for 4,719 litres, exceeding the approved fuel limit, without such an approval, in the year under review.
(f) National Budget Circular No.01/2016 of 17 March 2016.	Even though it had been stated that a Motor Vehicle should be obtained only on operational lease basis from an institution which rent motor vehicles registered under the Central Bank of Sri Lanka, in obtaining a motor vehicle on lease basis,a private motor vehicle had been obtained on monthly rental basis for the year from 20 October 2016 to 19 October 2017 without the approval of the Treasury for the use of the chairman of the company.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had resulted in a surplus of Rs.37,088,435 as against the corresponding deficit of Rs.62,756,178 for the preceding year, thus indicating an improvement of Rs.99,844,613 in the year under review as compared with the preceding year. The increase of the Other Operating Expenditure by a sum of Rs.66,918,564 and the loss incurred from the plantations of the Main Crops being decreased by a sum of Rs.30,126,909 as compared with the preceding year had been the main reasons for this improvement in the financial result.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Even though the Standard Annual Finished Tea Yield per hectare in Sri Lanka in the year 2017 had been 1595 kilograms according to the data of the Ministry of Plantation Industries, the Annual Tea Yield of 6 estates administered by the Company ranged from 390 kilograms to 876 kilograms. Maintaining a Seed tea Plantation of 447 hectares in extent, which is older than 50 years in this connection by the Company and not continuously focusing for the Twig Tea Plantation that has a higher yield had been the reason for receiving a minimal yield.

(b) The contribution of one kilogram of tea in 6 Estates where tea plantations remain, which belongs to the Company had remained in a minus value from a period of over 5 years. As such, the minus contribution relating to the year under review remained ranging from a sum of Rs.13 to a sum of Rs.70.

(c) Even though the Standard Finished Tea Yield per hectare in the year 2017 had been 1,595 kilograms according to the data of the Ministry of Plantation Industries, the Finished Tea Yield per hectare in the 334 hectares in extent administered by the External Parties of the Company remained ranging from 06- 89 kilograms. As such, a action had not been taken by the Company to obtain the standard yield by the extent of land with tea plantations administered by external parties.

(d) Even though the Average Price of one kilogram of Rubber of RSS 1 type relating to the year under review had been a sum of Rs.337 according to the data of the Ministry of Plantation Industries, the price received from private institutions for one kilogram of rubber sold by the Company ranged from a sum of Rs.304 to a sum of Rs.278.

(e) The coconut yield received in the year under review from the coconut plantation of 292 hectares in extent remaining in 4 estates of the Company had been 841,964 coconuts and that quantity had been decreased by 38 per cent as compared with the preceding year. Not implementing the Irrigation Systems sufficiently, sixty- four per cent of the total coconut plantations that had exceeded its useful lifetime and the delay in the initiation of replantation had affected towards the decrease of the yield.

(f) Even though the estimated yield intended to obtain in the year under review from the 45.77 hectares in extent located in the Millawana Estate and from the cocoa plantation of the Hapuspitiya Estate had been 17,000 kilograms, the yield of the year under review had been 2,305 kilograms or, only 14 per cent of the estimated quantity. Even though the useful lifetime of a cocoa tree being 25- 30 years, the yield had been decreased by 30 per cent as compared with the preceding year due to most of these plantations being plantations which had exceeded the useful lifetime, not continuously carrying out pruning, applying water and fertilizer.

4.2 Operating Activities

The following observations are made.

(a) Lands 4704 hectares in extent had been received to the Company by Gazette Notifications in establishing the Company in the year 1993 and it was observed that only 4054 hectares in extent of land is being administered by the Company as per the Reports on Lands of the Company as at 31 December 2017. Information relating to the remaining 650 hectares in extent had not been furnished to audit.

(b) Plantation activities are being carried out in 2624 hectares in extent of the 4054 hectares in extent administered at present by the Estates of the Company and action had not been taken to use the remaining 1430 hectares in extent of land for plantation activities.

4.3 Management Activities

The following observations are made.

(a) The recommendation made by the Committee on Public Enterprises to relocate the Head Office of the Company located in Colombo to the Building constructed in the year 2003 in the area of the Estates remaining in Matale belonging to the Company had not been implemented even by the last date of the year under review and the relevant Building remained idle.

(b) Even though an Estate Superintendent had been reinstated in service without the outstanding salaries and allowances relating to the period of being suspended from service as per the written agreement made with the Company and with the relevant Officer in the presence of the Commissioner of Labour relating to an Estate Superintendent whose service had been suspended on financial irregularities, a sum of Rs.1,600,000 had been paid in the year under review by deciding to pay a sum of Rs.2,694,669 as salaries and allowances relating to the period of being suspended from service under the payment of compensation for political revenge.

(c) Even though an Estate Superintendent who had proven guilty for 14 accusations out of the 15 accusations made in the year 2010 as per a Disciplinary Inquiry carried out by the Company had been suspended from service in the year 2013, he had been reinstated in service on 27 September 2013 without outstanding salaries and allowances without taking any action whatsoever by the Disciplinary Authority. A sum of Rs.785,000 had been paid in the year under review by deciding to pay a sum of Rs.1,304,119 as salaries and allowances relating to the period of being suspended under the payment of compensation for political revenge.

(d) Even though it had been agreed to purchase the Quartz Deposit in the Ratwatte Estate belonging to the ELkaduwa Estate as one cube of Quartz for a sum of Rs.13,650 inclusive of the Value Added Tax and the Nation Building Tax for mining for a period of 05 years, a sum of Rs.13,650 had been paid only for 59.85 cubes out of 164.47 cubes removed from the site from January to 14 June 2018 and, the remaining 104.62 cubes of Quartz had been removed from the site by the lessee by paying a sum of Rs.1,000 instead of purchasing for a sum of Rs.13,650 each per cube, by identifying the remaining cubes of Quartz as Waste Quartz.

(e) A land, 233 hectares in extent of the Nelawulla Estate, 358 hectares in extent of land belonging to the Company had been acquired by 255 unauthorized residents and action had not been taken either to relocate these unauthorized residents or to give those portions of lands to them on lease basis.

(f) The Bandarapola Tea Factory belonging to the Company had been rented for a period of 30 years to a private company in the year 2006 and, action had not been taken by the Company to recover the outstanding lease amounting to Rs.27,028,579 remained as at the last date of the year under review due to not paying the lease rent money by the lessee.

4.4 Idle and Underutilized Assets

Two factories out of 05 factories belonging to the Company remains inoperative and action had not been taken either to carry out the manufacturing activities by the relevant factories or to give those factories on lease basis.

4.5 Personnel Administration

The following observations are made.

(a) One Officer remain vacant under one name of post as at the end of the year under review under the Approved Cadre and, one Officer remain as surplus under one name of post. Moreover, two Officer not included in the Approved Cadre had been recruited under contract basis.

(b) A General Manager had not been permanently appointed from the year 2012 in compliance with the Scheme of Recruitment for the General Manager including in the Approved Cadre and, Officers had been appointed on contract basis and on cover- up basis.

(c) Even though 01 post of Deputy General Manager remained as per the Approved Cadre, 03 Officers had been appointed for that post from the month of September 2017.

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 and special attention is needed in respect of the following areas of control

Areas of Systems and Controls	Observations
(a) Control of Fixed Assets	Acquisition of lands by external parties, vehicle maintenance and insurance activities, maintenance of Tea Factories remaining at a weak level.
(b) Control of Budget	Even though targets had been set by the Budget, weaknesses being remained in the procedure of fulfilling those targets and in the minoring process.
(c) Debtors' and Creditors' Control	Weaknesses remaining in settling long- terms loan balances and in the process of recovering those loan balances.
(d) Personnel Administration	Recruitments had been made deviating from the approved Scheme of Recruitment.