

Gal-Oya Plantations Private Limited – 2017/2018

The audit of the financial statements of the Gal-Oya Plantations Private Limited (“the Company”) for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 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 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 Management’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 judgment, 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 Establishment and Ownership of the Company

The Gal Oya Plantations Private Limited is a limited liability Company incorporated under the Companies Act, No. 07 of 2007 on 19 September 2008, and out of the ownership 51 per cent is owned by the Government.

1.5 The Basis for the Qualified Opinion

- (a) The Company had been earning continuous losses from 2006/2007 and in that year loss was Rs.219 million and it had been significantly increased up to Rs.1, 352 million by 517 per cent after 10 years as at the year under review. Moreover, in excess loans over the total assets at the end of the financial year 2016/2017 was Rs.3,064,962,691 and at the end of the financial year 2017/2018, it had been increased up to Rs.4,417,401,944 by 44 per cent. The company had obtained the funds to meet the working capital requirements from its related parties and financial institutions at higher interest rates of 15 per cent to 28 per cent, while total loans and leases amount at the end of the year under review was Rs.6, 759,118,270. However, the interest expense on that amount was Rs.1, 193,519,762 for the year under review and the company had been unable to generate sufficient income from the factory in order to settle those Loan balances. Due to this financial crisis the going concern of the Company had been uncertain.
- (b) In terms of paragraph 19 (d) of Sri Lanka Accounting Standard No 16, the administration and other general overhead costs cannot be included in the cost of Property, plant and equipment, contrary to that, the administration cost and overhead cost amounting to Rs. 95,977,641 had been capitalized in the value of property plant and equipment. Due to that, value of the Company's distillery and building had been overstated by that amount.
- (c) Since useful life on non-current assets had not been reviewed annually in terms of Paragraph 51 of Sri Lanka Accounting Standard No 16, non-current assets worth of Rs.78,883,433 had still been in use despite been fully depreciated. Accordingly an action had not been taken by the company to review useful life again or revalue those assets and taken in to the accounts.

2. Financial statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Gal-Oya Plantations Private Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 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 for the opinion and scope and limitations of the audit are as stated above.
- (b) - Important limitations indicated in the basis of qualified opinion paragraph in this report, I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have

been kept by the Company under the important limitations stated in paragraph on basis for the qualified opinion and

- The financial statements of the Company comply with the requirements in Section 151 of the Companies Act, No. 07 of 2007.
- (c) The company had not been acted in accordance with the provisions included in the section 220 of the Companies Act.

2.3 Accounts Receivable and Payable

Action had not been taken by the Company to settle the payable balance to the Cane Research Institution over one year amounting to Rs.4,014,912 indicated in the financial statements even as at the end of the year under review.

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

Even though the company should be obtained an Environmental Protection License for the Sugar Production Plant in terms of Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008 and National Environment Act, the Company had not been obtained a license accordingly.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review amounted to a deficit of Rs.1,352,439,253 as compared with the corresponding deficit of Rs.956, 794,464 for the preceding year, thus indicating a deterioration of Rs.395, 644,789 in the year under review as compared with the preceding year. The increase of the financial cost by Rs.446, 103,282 or 60 per cent had mainly attributed to the above deterioration of the financial result.

3.2 Analytical Financial Review

The following observations are made.

- (a) Even though the company's Current Ratio was 0.29:1 in the year 2016/2017 it had been decreased to 0.26:1 at the year 2017/2018.
- (b) The company's net loss ratio had been increased from 95 per cent to 109 per cent as compared with the previous year.
- (c) The gearing ratio of the company had increased from 1.97 to 2.22 compared with the year 2016/2017, and it was observed that total assets are insufficient to cover total liabilities.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) The management of the Company had been granted via management agreement signed on 26 April 2010 to the Gal-Oya Holdings Company which is operated under Lanka Orix Leasing Company and Browns and Company those who hold the 49 per cent of shareholding of the Company. That Company had not been taken any action to overcome the Company's financial crisis and to improve the company performance during the past 8 year's period.
- (b) Action had not been taken by the Company to recover the long outstanding balance totaled Rs.19, 986,574 over 3 years, which had been given to the farmers for the preparation of cane lands even as at the end of the year under review.
- (c) Action had not been taken by the company to recover , a balance of loan amounting to Rs.58,883,052 , which had been given to the farmers for agricultural Purposes, even as at the end of the year under review.

4.2 Operating activities

Following observations are made.

- (a) Even though, the maximum crushing capacity per annum was 400,000 metric tons of cane (2000 MT per day × 200 operational days) the crushed cane for the year 2017/2018 was 169,940 metric tons, and unused capacity was 58 per cent. However, as compared 5 years of data from the year 2013/2014, the annual cane supply had been 259,289 metric tons, as at the year 2014/2015, while at the year 2017/2018 it has decreased to 182,582 metric tons. From the beginning, actions had not been taken by the company to obtain sufficient cane supply to meet the maximum crushing capacity of 400,000 metric tons up to the year and the Company had been unable to operate the factory at a maximum capacity.
- (b) When compared with 5 years of data, although the sugar recovery percentage for the year 2014/2015 was 8.1 per cent, while it has decreased to 7.5 per cent for the year under review and sugar content of cane fell steadily. Even though, in the year 2012/2013 it was 10.9 per cent as at the end of the year under review it has decreased to 9.1 per cent and an actions had not been taken by the management to increase that percentage.
- (c) It was observed that the sugar production per hectare has been steadily dropped during the 5 year period from the year 2012/2013 to year 2016/2017. Even though the sugarcane production per hectare was 74 metric tons in the year 2014/2015, and it has been decreased to 65 metric tons as at the year 2017/2018, and actions had not been taken by the company to improve this situation.

4.3 Staff Administration

There were 831 employees including 182 permanent and 649 contract basis employees as at the end of the year under review. Cadre and the scheme of recruitment of the Company had not been approved by 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 Systems and Controls

Observations

Areas of Systems and Controls	Observations
(a) Working capital management	Attention had not been paid on short term borrowings and the payment of huge interest on that loan.
(b) Debtors control	Non recovery of long outstanding balances which had been given to the farmers.
(c) Operational control	(i) Actions had not been taken to increase the sugar recovery percentage and the sugar content of sugar cane. (ii) Actions had not been taken to operate the factory at maximum capacity.
(d) Procurement	Failure to follow Procurement Guideline cost estimates, technical specifications and failure to enter in to the service agreements.