

Kurunegala Plantations Limited – 2017

The audit of financial statements of the Kurunegala 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 performance of the Company of the year under review which I consider should be presented 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 Responsibility of the Board of Directors 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 audit opinion.

1.4 Basis for Qualified Opinion

- a) Of the lands in extent of 6772 hectares that had been vested by the Janatha Estate Development Board in the Company at the time of its establishment, 1750.88 hectares of land with a lease value of Rs. 50,586,167 had been vested by the Government in other public and private sector institutions since the year 1992; and, information as to the areas wherefrom 550.88 hectares had been released therefrom and the parties whom such lands had been released to, was not made available to Audit.
- b) The Ministry had informed that a lease rent of Rs. 175,481,744 relating to those lands released sans approval of the Ministry of Plantation Industries and the Treasury, had remained recoverable from the Company as at 31 December 2017.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph “Basis for Qualified Opinion” of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Plantations 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 the 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-compliances with Laws, Rules, Regulations, and Management Decisions

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

Reference to Laws, Rules, and Regulations	Non-compliance
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| a) Sections 3.1 & 10.2 of Chapter VII of the Establishments Code of the Democratic Socialist Republic of | As 08 officers recruited during the period from 2007 up to the year under review had been provided with salary increments exceeding the |
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Sri Lanka.

ones specified, the Company had incurred an excess amount of Rs. 5,547,239 on salaries during the same period.

- b) Management Services Circular, No. 39, dated 26 May 2009. Without obtaining approval of the Salaries and Cadre Commission and the Department of Management Services, a sum totalling Rs. 8,395,725 comprising labor allowances, adjustment allowances, and medical allowances, had been paid by the Company in the year under review.
- c) Public Enterprises Circular, No. 01/2015, dated 25 May 2015. When the monthly fuel allowance is not sufficient under special circumstances, approval of the Board of Directors should be obtained for additional fuel in terms of the Circular. Nevertheless, a sum totalling Rs. 569,623 on 4,869 litres of fuel had been paid for 02 officers in the year under review without obtaining such an approval. Furthermore, a sum of Rs. 1,183,160 had been paid on 12,454 litres of fuel in the year under review for 05 officers of the Company under MM salary category who had not been entitled to fuel allowance.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a surplus of Rs. 161,797,211 as compared with the corresponding surplus of Rs. 126,577,293 for the preceding year thus showing an improvement of Rs. 35,219,918 in the financial result of the year under review in comparison with the preceding year. The increase in the financial income and the other income of the year under review by a sum of Rs. 26,946,568 and Rs.22,022,520 respectively as compared with the preceding year had been attributable to the improvement in the financial result of the year under review.

The analysis on the financial results of the year under review and 04 preceding years revealed that the surplus of the year 2013 amounting to Rs. 208,145,938 had continuously deteriorated and reached to the value of Rs. 161,797,211 in the year under review. However, when the taxes paid to the Government and the depreciation on non-current assets had been adjusted to the financial result, the contribution of the Company for the year 2013 amounting to Rs. 319,479,160 had decreased to Rs. 275,688,962 by the year 2016, but then again increased up to Rs. 396,092,116 by the year under review.

3.2 Analytical Financial Review

The following observations are made.

- a) As compared with the preceding year, the current ratio of assets had decreased from 1:7.5 to 1:6.8 whilst the instant ratio had decreased from 1.67 to 1.63 in the year under review. It was observed that the attention drawn by the Company on long-term investments, remained poor.
- b) The gross profit ratio of the year under review had increased from 35 per cent to 43 per cent as compared with the preceding year. The decrease in the cost of sales owing to the increase in the selling price of coconuts and the decrease in the production of coconuts as against the preceding year, had mainly attributed thereto.

4. Operating Review

4.1 Performance

The following observations are made.

- a) The coconut harvest of the year under review had diminished by 36 per cent as compared with the preceding year. The reasons therefor included: failure to provide irrigation systems sufficiently, and failure to continuously implement the agricultural methodologies in order to withstand the drought.
- b) According to the standards of the Coconut Research Institute, a coconut tree should produce 72 coconuts in average per year. Nevertheless, only 28-42 coconuts had been produced by the 08 estates administered by the Company. The Company's failure in using chemicals and fertilizers by inspecting the soil and providing irrigation systems, had attributed to the decrease in the harvest.
- c) Of the overall yielding coconut trees in the 08 estates being administered by the Company, 4-9 per cent of the trees were taller. Although the Company harvested the coconuts monthly, 22 per cent of the total coconut harvest equivalent to 2,386,831 coconuts were the ones fallen naturally. The increase in the naturally-fallen coconuts could be attributable to the failure in harvesting the coconuts monthly within specified periods, and coconuts on the taller trees were not harvested properly.
- d) Sixteen per cent or 58,287 trees out of the 354,715 coconut trees that had been identified in the 08 estates administered by the Company as being matured, had become unyielding coconut trees. Measures had not been taken by the Company for removal of such trees and re-cultivation.
- e) According to the statistics of the Ministry of Plantation Industries, the harvest of latex per hectare had been 809 Kilograms. However, only 609 Kilograms of latex had been reaped per hectare of rubber lands administered by the Company. As such, action had not been taken to re-cultivate by removing the rubber trees in 173.47 hectares administered by the Company that had exceeded the useful life.

4.2 Management Activities

The following observations are made.

- a) According to the reports of the Company, the rock spanning 11.49 hectares in the Division of *Kithulkele* belonging to the *Katugampala* Estate, had been quarried by unauthorized parties since the year 2005. As of the year 2008, the quarrying had been done by 06 unauthorized persons and 03 license holders. The Company had not taken any legal action whatsoever in that connection. Bids had been called in August 2017 to lease out the said rock though, the tender had not been awarded even up to 16 October 2018 whilst the quarrying had been continued by the external parties.
- b) It had been decided to construct a lake by spending a sum of Rs. 2,492,000 at an area of 1.34 hectares in the Division of *Esmorfield* belonging to the *Katugampala* Estate of the Company based on an estimate prepared by the Department of Agrarian Development. It had been estimated that, once the soil from the excavations was used to construct the bund of the lake, 530 cubes of soil should remain. However, without constructing the bund of the lake, tenders had been called by the Company to sell 1,000 cubes of soil. Hence, it was observed that soil had been sold without constructing the lake as planned.

4.3 Operating Activities

The following observations are made.

- a) Paddy lands in extent of 203.46 hectares had been owned by the Company, but those lands remain encroached by the tenant farmers at the present day. However, action has not been taken either to reacquire the lands or give on lease.
- b) According to data of the Sri Lanka Cashew Corporation, the average harvest of a cashew tree is 10 Kilograms annually. However, only a harvest of 22,943 Kilograms had been reaped from the matured cultivation of 13,456 cashew trees being maintained by the Company. As such, 17 per cent of the average harvest that should have been reaped, had been yielded in the year under review. An increased harvest could not be obtained due to failure of the management of the estates in carrying out activities such as , trimming the trees on time.
- c) According to the technical statement issued by the Department of Export Agriculture in the year 2015, the average harvest of a matured pepper vine should be in the range of 1 – 2.5 Kilograms of dried pepper per annum. However, as for the 12,013 pepper vines in the matured cultivation spanning 34.32 hectares in 03 estates administered by the Company, the dried harvest of pepper reaped therefrom had only been 4,853 Kilograms equivalent to 0.41 Kilograms of dried pepper per vine. The reasons such as, failure in properly following the agricultural techniques and obtaining agricultural consultancy services, had attributed thereto.

4.4 Underutilized Assets

Operations of the rubber factory built at the expenditure of Rs. 12,078,708 in *Dammullahena* area of the *Attanagalla* estate, had been commenced in the year 2016. The production capacity of the machines of the factory was 1,000 Kilograms of latex per day, but the amount of latex used in productions during the year under review was 50,357 Kilograms only, thus utilizing only 14 per cent of the standard production capacity of the factory. The failure of the Company in taking action to increase the harvest of latex and enhancing the productions by purchasing latex from external parties, had been attributable thereto.

4.5 Staff Administration

Nineteen posts of the Officer in Charge directly related to the operating activities of the Company, had remained vacant as at the last date of the year under review. As such, the daily operating activities of the estates could not be carried out efficiently and promptly.

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 Systems and Controls.

Areas of Systems and Controls	Observation
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a) Budgetary Control	Targets for production had been established in the budget, but achieving such targets remained poor.
b) Debtor Control	Failure in taking action to recover the balances of long-term loans.
c) Staff Administration	As the number of labourers working for the Company had continuously decreased, there existed the risk of inadequacy of labourers.
d) Control of Operations	The cultivated plants had been perished due to reasons such as, the harvest from a coconut tree had decreased, failure in applying coconut fertilizer scientifically and following proper maintenance and control techniques, and lack of a sufficient irrigation system.