Kurunegala Plantations Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Plantations Limited ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

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 Company as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Scope of Audit(Auditor’s Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company*;*

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

	Non-compliance with Accounting Standards	Comments of the Management	Recommendation
(a)	In terms of paragraph 61 A of Sri Lanka Accounting Standard 12 on income tax, deferred tax relating to items recognized outside profit or loss, should be recognized outside profit/loss. However, it had not been so done and according to paragraph 62 (a) of Sri Lanka accounting Standard 12, the deferred tax arising on a change in carrying amount arising from the revaluation of property, should be recognized in other comprehensive income. However, the overall impact to the value of Rs.16,767,677 arising from revaluation of motor vehicles made by the Company in the year under review had been recognized as a deferred tax asset valued at Rs.1,179,555 without being recognized under deferred tax liabilities, deferred tax expenses and other comprehensive income. As a result, the comprehensive income and the profit of the year had increased by Rs.16,223,140 and Rs.1,724,092 respectively while the deferred tax liability had decreased by Rs.17,947,232. Further, even though the said impact should be adjusted to the revaluation reserve, the Company had not done accordingly.	Action will be taken to rectify in the accounting year-2021.	The deferred tax should be recognized under other comprehensive income and brought to account.

(b)	Even though 160 motor vehicles to the book value of Rs.11,923,616 had been revalued for Rs.127,803,190 in the year under review, according to paragraph 73(e) of Sri Lanka Accounting Standard 16 on property, plant and equipment, the said revalued amount had not been separately disclosed in the balance of property, plant and equipment in the statement of financial position of the Company. Moreover, according to paragraph 77 of the Standard, disclosures to be made in respect of revaluation as well had not been made in the financial statements	Even though the said revalued amount had been indicated in the statement of other comprehensive income and the statement of changes in equity, it has not been disclosed through notes to property, plant and equipment. Action will be taken to submit this note accurately in the accounting year -2021.	Action should be taken to disclose the revalued amount separately in the balance of property, plant and equipment in the statement of financial position.
(c)	In terms of paragraphs 51 and 61 of Sri Lanka Accounting Standard 16 on property, plant and equipment, the useful life of non-current assets had not been reviewed annually and as such, fully depreciated assets such as computers, equipment and furniture costing Rs.3,113,150, Rs.8,591,207 and Rs.2,351,155 respectively had been further used by the Company by the end of the year under review. However, action had not been taken to revise the said estimated error and to indicate the accurate carrying amount in the financial statements in terms of Sri Lanka Accounting Standard 8.	Even though the useful life of non-current assets should be reviewed annually, the Company is facing practical difficulties in implementing this as a policy. However, until the Company will take action according to this Accounting Standard, it is informed that action will be taken in the ensuing year of accounts to submit fully depreciated assets but still in use, through a note.	Action should be taken to revise the carrying amount of fully depreciated assets and to indicate the accurate value in the financial statements.

1.5.2 Accounting Deficiencies

The following observations are made.

	Audit Observations	Comments of the Management	Recommendation
	-------------------------	----------------------	----------------------
(a)	The approval of the Ministry of Plantation Industries or Treasury had not been received for the decision reached by the Company to discontinue the lease rental since the year 2009, payable to the General Treasury relating to lands of 1,751 hectares in extent released for various purposes of the Government, out of lands leased out to the Kurunegala Plantations Ltd. for plantation activities. Moreover, the lease rental of Rs.221 million not paid up to the end of the year under review had not been disclosed in the financial statements.	The Plantation Management and Monitoring Division had made a request to plan the activities required to solve this problem with the intervention of the Department of Public Enterprises of the Treasury.	The lease rental not paid for lands should be disclosed in the financial statements.

(b)	Even though lands of 1,751 hectares in extent valued at Rs.67 million, of lands granted to the Company by the Janatha Estates Development Board in the year 1992, had been released by the end of the year under review for various requirements of the Government and public, details on those lands had not been disclosed in the financial statements of the year under review.	Action will be taken to submit this note in the accounting year -2021.	Details on lands released should be disclosed in the financial statements.
(c)	The policy adopted by the Company for allocating provision for bad debts and doubtful debts for debtors had not been disclosed in the financial statements.	Action will be taken to disclose the relevant accounting policies in the financial statements in ensuing years of accounts as per Sri Lanka Accounting Standard – SLFRS 9.	Relevant disclosures should be made in the financial statements.
(d)	A liability totalling Rs.21,925,220 comprising tax liability on business profit of Rs.7,616,547 and tax liability on investment income of Rs.14,308,673 had not been indicated in the financial statements and as such, after tax profit of the year had been over-computed by Rs.21,925,220 while current liabilities had been under-computed by the same amount.	It is not necessary to recognize the liability totalling Rs.21,925,220 comprising tax liability on business profit of Rs.7,616,547 and tax liability on investment income of Rs.14,308,673 as a tax liability by the Company. It is exempted from this liability under tax relief granted to agricultural companies and it is not necessary to recognize the said amount as a current liability of the Company.	As per paragraph 04 of the Notice No.PN/TI/2020-03 (Amended), issued by the Inland Revenue Department on 18 February 2020, the Company had taken action by considering that the business income of the Company is exempted from income tax. However, the said Notice had not been enacted as a law by Parliament. As such, the Company should make allocations for income tax in the year 2020/21 according to Inland Revenue Act, No.24 of 2017.
(e)	A sum of Rs.17,616,548 representing 14 per cent of the value of revised profit from taxes of the Company amounting to Rs.54,403,910 had been recognized as a deferred tax liability. As such, the	Action will be taken to rectify it in the accounting year -2021.	Action should be taken to use 14 per cent out of the tax loss of the Company,

		deferred tax liability of the Company had been overstated and the profit of the year had been understated by the said value. Moreover, tax losses of Rs.89,503,736 of the Company, brought forward since the preceding years had not been used as a deferred tax asset in calculating the said deferred tax liability and as such, deferred tax liability had been overstated by Rs.12,530,523.		brought forward since the preceding years, as a deferred tax asset in calculating the said deferred tax liability.

1.5.3 Lack of Evidence for Audit

Item	Amount	Audit Evidence not made available	Comments of the Management	Recommendation
Property, Plant and Equipment	Rs. 139 Million	Plans relating to lands leased to the value of Rs.139 million shown under property, plant and equipment in the statement of financial position, were not available with the Company. As such, the Company had failed to confirm the legal ownership and clear title of lands.	Even though survey activities of 78 out of 87 allotments owned by the Company have been carried out by the Plantation Management and Monitoring Division by now, several plans of them have been received to us. Further, several other plans have been provided to the Ministry of Plantation Industries and to the Survey Department and those plans have been requested by us through the letter dated 02.12.2019. However, according to the document used for valuation of lands, the extent of these lands stood at 6,722 hectares. Survey activities of these lands and preparation of plans therefor are in progress.	Plans relating to leased lands should be prepared.

1.6 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
According to 4th Schedule 1(1) of the Inland Revenue Act, No.24 of 2017, capital allowance for buildings should be calculated as 20 years. However, as there is an error in calculating the capital allowance for buildings purchased by the Company at a cost of Rs.33,385,858 in the year under review, it had been considered as one year, thus resulting in an increase in the deferred tax liability by Rs.4,440,319 and after tax profit as well had decreased by the same value.	Action will be taken to rectify it in the accounting year-2021.	Capital allowances should be computed as per the Act.

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following observations are made.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Paragraph 02 of Public Enterprises Circular No.95 of 14 June 1994	An allowance called Adjustment allowance totalling Rs.1.08 million at the rate of Rs.10,000 per month and a medical allowance of Rs.1,418,894 had been paid in the year under review by the Company to 09 Managers of Middle Level and Officers of Executive Level respectively in the year under review despite not having made any provision whatsoever by the circular therefor.	**Adjustment Allowance** The recruitments to the Top Management and Estate Superintendents of the Kurunegala Plantations Limited had been made at the HM salary category at the commencement and in the approval of the Scheme of Recruitment in the year 2010, the relevant Management Grade had been graded as MM. As such, 2 salary categories were created for the Management Grade which holds similar posts and fulfils the same responsibilities. An allowance of Rs.10,000 has been paid for the MM salary step on a decision of the Board of Directors (Decision of the Board of Directors at the 264th meeting held on 26-08-2011) taken for minimizing the said salary anomaly.	Action should be taken considering these allowances as improper.

			Medical Allowances Even though it has been pointed out by your Audit Query that the medical allowance is paid only to Executive Officers, the said medical allowance has been paid to all employees of the Company who draw a monthly salary (including the estate staff) since the inception of the Company.	
(b)	Paragraph 1 of the Department of Management Services Circular No.39 of 29 May 2009	Employees' salaries, amounting to Rs.5.4 million payable to 09 officers of Senior Level and Staff Officers of the Company for deploying estate workers in the service in the year under review as well without the approval of the Department of Management Services or the General Treasury had been paid to the relevant officers as employees' allowances convertible to cash without deploying workers in the service.	It is incorrect to mention in this Audit Query that employees' allowances convertible to cash of 09 officers in the HM, MM and JM salary categories have been paid. Further, we would like to inform that 31 officers in our Company are entitled to the HM, MM and JM salary categories. The Executive Officers are entitled to the said labour allowance since the inception of the Company and in the past, it has been physically paid to the workers.	Action should be taken considering these allowances as improper.
(c)	Paragraph 02 of Public Enterprises Circular No.01/2015 of 25 May 2015	Official vehicle facilities had been provided to five officers deployed in the Head Office who are not entitled to official vehicles and an expenditure of Rs.1.02 million had been incurred as well on fuel for vehicles in the year under review.	According to the organizational structure of the Company, no post exists in between the Chief Executive Officer and the Deputy General Manager and the next level is the Senior Management. Accordingly, as mentioned in your Audit Query, the Divisional Heads representing the Senior Management have been named as officers not entitled to official vehicles.	Action should be taken in terms of the Circular.

2. Financial Review

2.1 Financial Result

According to financial statements presented, the operations of the Company for the year under review resulted in a profit of Rs.214,946,751 as compared with the corresponding profit of Rs.120,170,906 of the preceding year, thus observing an improvement of Rs.94,775,845 in the financial result of the year under review as compared with the preceding year. The sales income had increased by Rs.186,591,611 in relation to the sales cost which had slightly improved by 6 per cent. The increase in the price of coconut in the year under review had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The following observations are made.

(a) The average coconut yield of the Company from one hectare stood at 4,084 nuts in the year 2020 while the average coconut yield from one hectare stood at 5,212 nuts in the year 2019. As compared with the year 2020, a decrease of 1,128 nuts was observed per hectare. As such, it was a decrease of 22 per cent as compared with the year 2019.

(b) A number of 10,008 unproductive trees remain with the Company which represents 2.8 per cent of the number of productive trees. As the said 10,008 trees are not in productive stage, the income deprived of to the Company amounts to Rs.25,020,000 (10,008*50*50). Action had not been taken to re-plant by removing the aforesaid trees in case of failure to be brought to the productive stage.

(c) Even though a yield of 16 million coconuts was targeted in the year 2020, the actual yield of coconuts stood at 11 million which represented a decrease of 31 per cent.

2.3 Analysis of Ratios

The analysis of ratios for the years 2019 and 2020 are as follows.

Ratio	2020	2019
Current Assets Ratio	1.89	1.74
Quick Assets Ratio	1.78	1.59
Gross Profit Ratio	40.25	22.65
Net Profit Ratio	31.37	24.10

3. Operating Review

3.1 Idle or Underutilized Property, Plant and Equipment

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Out of lands belonging to the Company, an extent of 977.7 hectares is not utilized for cultivation and the said extent had been identified as buildings, roads, lakes and barren lands. Moreover, it was observed in Audit that if the existing Dairy Cattle Project was carried out effectively by utilizing coconut lands without under cultivation, it would have been more profitable due to the severe lack of milk in the country at present.	Inter crops have been cultivated by the Company in an extent of approximately 1,615 acres by the year 2020 and nearly an extent of 1,000 acres have been leased out to external parties on the basis of providing facilities. Lands are being leased out for animal husbandry as well. It is informed that action will be taken to lease out suitable lands which are not utilized by the Company for inter crop cultivation and animal husbandry, to external parties on the basis of providing with facilities.	Steps should be taken to identify and cultivate underutilized lands.
(b)	It was observed that paddy lands of 129.65 hectares in extent owned by the Company remain without being utilized for cultivation since many years. According to reports on paddy census issued by the Department of Census and Statistics, the average yield of one hectare of paddy land stands at 4,531 kilograms while the total yield of 129.65 hectares is 587,444 kilograms. The certified price for rice remained as Rs.50 in the year 2020 and the income generated from paddy cultivation amounts to Rs.29,372,207.	Even though it had been indicated in reports that the extent of paddy lands as 129.65 hectares, the Company had not confirmed the said extent by carrying out a survey. Action has been taken to provide farmers with paddy lands existing in estates suitable for cultivation from season to season and for tenant cultivation as well.	The extent of underutilized paddy lands should be identified and utilized for paddy cultivation.

3.2 Staff Administration

Audit Observation	Comments of the Management	Recommendation
In terms of the letter dated 16 September 2011 of the Department of Management Services, the approved cadre of Kurunegala Plantations Limited stood at 268. However, the actual cadre of the Company as at 31 December 2020 stood at 212. As such, there were vacancies in 56 posts of the Company by 31 December 2020.	It is kindly informed that action will be taken to review the requirement of posts existing in the company and to revise the cadre.	Recruitments should be made for vacancies after reviewing the approved cadre.

4. Accountability and Good Governance

4.1 Business Plan

Audit Observation	Comments of the Management	Recommendation
In terms of Public Enterprises Circular No.12 of 02 June 2003 and paragraph 5(2) of Public Finance Circular No.01/2014 of 11 February 2014, a business plan including commercial activities expected to be implemented in the ensuing financial year should be prepared based on the business plan. Moreover, in terms of Section 5.1.3 of the Public Enterprises Circular mentioned above, the said business plan prepared 15 days before the commencement of the financial year should be submitted to the line Ministry, Department of Public Enterprises, General Treasury and the National Audit Office after obtaining approval of the Board of Directors. However, the business plan prepared for the years 2020 -2024 had been approved only on 13 February 2020 and it was submitted to Audit on 10 November 2021.	Appointing a Board of Directors was delayed due to the change in the then Government. As such, after holding a meeting of the Board of Directors on 31.10.2019, a meeting of the Board of Directors was held again on 13.02.2020. Accordingly, the approval of the Board of Directors had been received only on 13.02.2020 for the business plan prepared for the years 2020/2024 submitted at the meeting of the Board of Directors. Failure in holding meetings of the Board of Directors between October 2019 and 13.02.2020 had been the reason for the delay. Accordingly, the business plan was approved after submitting at the first meeting of the Board of Directors held in the year 2020. It has been submitted to the line Ministry on 19.02.2020 after obtaining approval of the Board of Directors.	Action should be taken in terms of circulars.