

Chilaw Plantations Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw 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 the 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
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(a) 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, action had not been taken by the Company to revise the cost of assets such as office equipment, furniture and machinery costing Rs.27,429,495, Rs.6,546,125 and Rs.500,000 respectively fully depreciated by the year under review and to indicate the accurate carrying amount thereof in the financial statements.	Most of fixed assets mentioned, are the assets purchased before the year 1992. In vesting assets in the Chilaw Plantations Limited prior to the year 1992, the book value existed in the Register of Fixed Assets of the JANAWASAMA (JEDB) as at that date, had been credited to the accounts of the Chilaw Plantations Limited while items of assets have not been specifically recognized. All above assets purchased prior to the year 1992 had fully depreciated and many assets had scrapped and they are no longer physically available by now. Further, a part of fully depreciated assets purchased even after the year 1992 had scrapped	Action should be taken to revise the carrying amount of fully depreciated assets and to indicate its accurate value in the financial statements.

and those have been removed from being used. Even though certain assets are still in use, revaluation and entering them in registers is not practical. Old computers, decayed furniture can be illustrated as examples therefor.

Further, annual revaluation of such equipment available in 8 estate zones and 85 estate fields is not practical and a large cost too could be incurred therefor. Moreover, it also takes a lot of time. However, attention has been drawn towards entering a note in reports of accounts on fully depreciated assets.

- (b) 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 the Standard, the deferred tax arising on changes in carrying amount arising from the revaluation of property, should be recognized in other comprehensive income. However, the overall impact on the value of Rs.14,213,603 arising from revaluation of motor vehicles, made in the year under review had not been recognized under deferred tax liabilities, deferred tax expenses and other comprehensive income by the Company. As a result, the deferred tax liability had decreased by Rs.13,844,318. Further, even though the said impact should be adjusted to the revaluation reserve, the Company had not done accordingly.
- Motor vehicles of the Chilaw Plantations Limited had been revalued as at 31.12.2020 and as such, provision for depreciation has not been made on revaluation during the year and it has not affected the profit. Moreover, depreciation up to 31.12.2020 had been adjusted based on the cost of motor vehicles. As such, revaluation profit as well as the provision for depreciation thereon had not made an impact on the profit, loss or taxes of the year. As such, in the calculation of deferred tax, revaluation of assets has not been taken into consideration. As provision for depreciation of assets are made on the revalued amount during the year 2021, calculation of deferred tax is appropriate considering the balance of revalued assets at the end of the year.
- Action should be taken in terms of Sri Lanka Accounting Standards. The deferred tax should be recognized under other comprehensive income and brought to account.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
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(a) Even though lands of 185 hectares in extent valued at Rs.4.6 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.	Lands vested in the Chilaw Plantations Limited in the year 1992, are the lands vested by the Government according to the Land Reform Commission Act in the year 1972. These lands have been vested in the JANAWASAMA (JEDB) in the year 1976. Lands managed under the JANAWASAMA in the year 1992 have been vested in the Chilaw Plantations Limited according to the Lease Agreement. In considering the current position of lands of 185 hectares in extent, it can be informed that most of lands have been released prior to the year 1992. After completing cadastral surveys of the Company, lands which are in the possession of the Company can be specifically surveyed and then, extent of lands which are not in the possession of the Company could be specifically identified.	Disclosures relating to lands released should be made in the financial statements.
(b) A tax liability of Rs.23,432,527 on the revised profit for tax of the Company had not been recognized in the financial statements. As such, the profit of the year had been over-computed by the same amount while current liabilities had been under-computed by the same	According to paragraph 4 of the Notice No.PN/IT/2020-03 Revised issued on 08.04.2020 by the Inland Revenue Department, agro farming has been exempted from income tax. Moreover, agro farming has been exempted from	According to paragraph 4 of the Notice No.PN/IT/2020-03(Amended) issued on 18 February 2020 by the Inland Revenue Department,

amount.

income tax from 01 April 2019 by the Inland Revenue (Amendment) Act, No.10 of 2021.

Accordingly, agro farming and profit earned by the Chilaw Plantations Limited is exempted from income tax with effect from 01.04.2019 as per paragraph 4 above. As a result, in the preparation of reports of accounts relating to the year ended 31 December 2020, computation of taxes has been based on the said exemption from tax.

Moreover, the Guidelines issued by the Institute of Chartered Accountants mentioned in the audit query, has been issued on 23 April 2021 and at the time of preparation of reports of accounts, such Guidelines had not been issued.

the Company had taken action by considering that the business income of the Company has been exempted from income tax. However, the said Notice had not been enacted as a law by Parliament. As such, the Company should make provision for income tax in the financial year - 2020/21 according to the Inland Revenue Act, No.24 of 2017.

1.5.3 Lack of Evidence for Audit

Item	Amount (Rs.)	Audit Evidence not made available	Comments of the Management	Recommendation
Property, Plant and Equipment	Rs. 142 Million	Deeds and Plans relating to lands leased to the value of Rs.142 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	In vesting lands after establishment of the Chilaw Plantations Limited in the year 1992, Deeds or Plans relating to those lands had not been handed over. However, final Village Plans have been found by now from the Survey Department relating to certain lands belonging to 85 Estate	Deeds and Plans relating to leased lands should be prepared.

ownership of lands and clear title of lands of 5,733 hectares in extent vested in the Company in the year 1992.

Units managed by the Chilaw Plantations Limited. Further, cadastral mapping of about 20 Estate Units has been completed by now. Activities relating to cadastral mapping of estates managed by the Chilaw Plantations Limited, to be made through the Survey Department, are carried out by the Plantation Management and Monitoring Division of the Ministry of Plantation Industries. As such, it has been informed at several times to provide the said unit as well with facilities required for survey of lands.

2. Financial Review

2.1 Financial Results

The operations of the Company for the year under review resulted in a profit of Rs.283,099,662 as compared with the corresponding profit of Rs.64,010,604 of the preceding year, thus observing an improvement of Rs.219,089,058 in the financial result of the year under review as compared with the preceding year. The increase in the profit by Rs.193,217,928, received from selling coconut and cashew which are the main crop cultivations, in the year under review as compared with the preceding year and 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.

Audit Observations	Comments of the Management	Recommendation
(a) Even though a yield of 16 million coconuts was targeted in the year under review by the Company, the actual yield of coconuts stood at 12 million which represented a decrease of 25 per cent	When preparing annual estimates by the Chilaw Plantations Limited, the average of yield harvested during 5 preceding years is taken into consideration and annual estimates are prepared by adding an increase of about 5 per cent to the average.	Steps should be taken to increase the coconut yield and to prevent the misuse and wastage.
(b) When comparing the estimated coconut yield and the actual coconut yield of the year under review, all other estates except for Bingiriya Estate had reached their targets. Accordingly, the decrease of 37 per cent being the highest variance was reported from the Managala-Eliya Estate while the decrease of 35 per cent being the second highest variance was reported from the Chilaw Estate.	The targeted estimated financial value may be fluctuated based on variances of the coconut yield and price fluctuations in day-to-day market.	Necessary steps should be taken to achieve the annual targeted yield.
(c) The coconut yield of the Company stood at 12 million nuts in the year 2020 while the coconut yield in the year 2019 stood at 15 million nuts and the coconut yield of the year under review had decreased by about 3 million nuts as compared with the year 2019 representing a decrease of 20 per cent. When comparing the coconut yield of the year under review with the year 2019, coconut yield of all estates had decreased from 5 per cent to 32 per cent and the highest variance of 32 per cent was reported from Thambapanni and Divulapitiya Estates.	The coconut yield (nuts) of the year 2019 stood at 14,993,952 while the actual coconut yield of the year 2020 stands at 11,943,494 nuts. It was a decrease of 20 per cent as compared with the year 2019. High rainfall received in the year 2019 as compared with the year 2020 has mainly attributed to the increase in the yield of the year 2019 as compared with the year 2020.	Action should be taken to increase the annual yield.

2.3 Analysis of Ratios

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

Ratio	2020	2019
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Current Assets Ratio	2.26	1.59
Quick Assets Ratio	1.90	1.06
Gross Profit Ratio	40.81	20.00
Net Profit Ratio	42.07	14.37
Earnings Ratio of a share	13.28	2.52
Debtors' Ratio	0.30	0.33

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) The annual average yield of a coconut tree stands between 60 and 100 nuts and if it is considered as 60, the annual minimum coconut yield of 271,467 productive trees should be 16,288,020 nuts. However, the yield of the Company for the year 2020 stood at 11,943,494 coconuts. Accordingly, a shortage of 4,344,526 nuts is observed over the minimum number of expected nuts, thus representing a decrease of 27 per cent in the yield expected in the year 2020.	Considered at national level, the number of the total cultivable coconut lands stands at 1.1 million and the annual coconut yield therefrom stands between 2,800 and 3,000 million nuts. The annual yield of the year 2020 stands at 2,818 million and taking the number of trees into consideration, the average yield of a tree is about 40 nuts. As compared with the national production data, the Chilaw Plantations Limited maintains an optimum level and the number of nuts obtained by us in the year 2020 is 44 nuts per tree. Moreover, the Chilaw Plantations Limited has adopted various	Action should be taken to achieve the minimum or more than the expected target.

agricultural practices for increasing the number of nuts produced by a tree and especially entered into scientific application of fertilizer, water supply, projects on collection of water and burying of coconut husks etc.

- (b) **Considering the total extent of land cultivated in the year 2020, it was observed that the land relating to three estates have been underutilized within a percentage of 20 and 26 per cent. The highest variance of 26 per cent of underutilization was from the Palugaswewa Estate while variances of 23 per cent and 22 per cent were underutilized from the estates of Nikaweratiya and Bingiriya respectively.**
- The extent of cultivable lands of the year 2020 is 3,099 hectares and an extent of 708 hectares is allocated for under cultivation and new cultivations. The average number of trees per acre should be 64 and it should be 158 for 01 hectare. Cultivations relating to various age groups exist within the total extent of hectares and the said cultivations are related to the age groups of less than 05 years, 5- 19 years, 20- 49 years and more than 50 years. Considering the vacant spaces existing herein, filling with plants for groups less than 05 years is practical and filling the vacant spaces in the main cultivation is a practically difficult task. However, the Company has already started under cultivations again for cultivation lands more than 60 years old and starting a total under cultivation in the relevant field is a practical process carried out instead of planting each plant in the vacant space.
- Action should be taken to utilize the land with maximum capacity.**

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| <p>(c) In coconut cultivation, the average number of coconut trees per acre stands at approximately 70 and accordingly, the number of coconut trees that should exist per hectare is 172 trees. The total extent of coconut cultivation owned by the Company stands at 3,099 hectares and as such, the number of trees that should exist in one hectare is 624, 007. However, the total number of coconut trees presently cultivated by the Company stands at 310,635, thus observing an underutilization of 313,372 trees representing 50 per cent coconut lands than the average number.</p> | <p>A programme on sublease of coconut lands owned by Chilaw Plantations Limited is being implemented since the year 2020 and an extent of approximately 1,500 acres has been already leased out to external parties for intercropping. The Company has thereby succeeded in increasing the productivity of the land and an additional income had been received from leasing out while an indirect benefit had been received from control of weeds, water supply and use of fertilizer in the intercropping relating to the relevant coconut cultivation. It is informed that the Company has succeeded in further limiting the extent of land underutilized through the process indicated above.</p> | <p>An optimum number of coconut trees should be cultivated and maintained in coconut lands.</p> |
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3.2 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) In terms of Guideline 4.2.1 of the Procurement Guidelines, the Master Procurement Plan should be prepared at least for a period of three years and should be regularly updated within a period not more than six months and thereafter a detailed Procurement Plan should be prepared for the following year. However, the Company had failed to prepare the Master Procurement Plan.</p>	<p>Had not commented.</p>	<p>Action should be taken in terms of the Procurement Guidelines.</p>

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| (b) | According to the Procurement Plan – 2020, the unutilized amount of the provision made for the year under review was Rs.42,284,711 representing a percentage between 53 and 98 per cent. | Had not commented. | Action should be taken in terms of the Procurement Plan. |
| (c) | The Company has purchased 25 procurements valued at Rs.7,792,137 in the year under review contrary to the Procurement Plan. As such, it was observed that the relevant expenses had not been previously identified and included in the Procurement Plan. | Had not commented. | The Procurement Plan should be properly prepared. |

3.3 Human Resource Management

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
The staff of the Company had been approved by Letter No.DMS/G3/53/5 dated 04 May 2012 of the Department of Management Services and accordingly, 116 officers relating to 29 posts should be deployed in the service. Nevertheless, there were vacancies for 39 officers as at 31 December 2020 in 18 approved posts of the Company.	Action has been taken to cover up duties of these vacant posts through trainees and at present, the said duties are covered through the employees deployed in the service of the Company. As such, the activities of the Company were carried out with great difficulty and the recruitments have been difficult due to the Covid -19 pandemic.	The approved cadre should be reviewed and immediate recruitments made in case of any vacancies.

4. Accountability and Good Governance

4.1 Corporate Plan

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) In terms of Section 5.1.3 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, updated copies of the Corporate Plan approved by the Board of Directors should be forwarded to the Secretary to the line Ministry for approval and thereafter to the Department of Public Enterprises, General Treasury and the Auditor General at least 15 days before the commencement of each financial year. Nevertheless, the Corporate Plan 2018-2022 had been forwarded with a delay to the National Audit Office on 30 November 2021.	The Corporate Plan 2018-2022 had been forwarded to the National Audit Office in line with auditing and action will be taken to forward it to the National Audit Office within the due period.	The Corporate Plan should be approved within the due period and forwarded to the Auditor General.
(b) In terms of Section 5.1.2 of Public Enterprises Circular No.12 of 02 June 2003, the following matters which should be included in the Corporate Plan had not been included in the Corporate Plan 2018-2022.	Action will be taken to consider matters i, ii, iii and iv pointed out by you and to include those in the next Corporate Plan.	The Corporate Plan should be prepared in terms of the Circular.
(i) The current resources available to the enterprise		
<ul style="list-style-type: none">• Land and buildings• Production and operating facilities• Human resources and management skills• Technical know-how		

- Markets and Suppliers

- (ii) Organization Structure
- (iii) Strengths and weaknesses in the organization and the external threats and opportunities (SWOT analysis)
- (iv) Action Plan clearly identifying the responsibilities of Managers with goals and targets to be achieved during the Plan period

4.2 Action Plan

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>In terms of paragraph 5(2) of Public Finance Circular No.01/2014 of 17 February 2014, an Action Plan including commercial activities expected to be implemented in the ensuing financial year based on the Corporate Plan, should be prepared and the following shortcomings were observed in schedules which should be included in the Action Plan so prepared.</p> <ul style="list-style-type: none"> (i) Annual Procurement Plan including proposed major investments, capacity expansion and major procurements (ii) Human Resource Development Plan (iii) Plan on repayment of loans 	<p>In terms of paragraph 5(2) of Public Finance Circular No.01/2014, action will be taken to forward the new Annual Action Plan with other schedules mentioned as i, ii and iii which should be included in the Action Plan including commercial activities expected to be implemented in the ensuing financial year based on the Corporate Plan.</p>	<p>Action should be taken to prepare the Action Plan by including accurate schedules.</p>

4.3 Budgetary Control

Audit Observation -----	Comments of the Management -----	Recommendation -----
Out of provision made for capital and other activities included in the budget of the year under review, the amount unutilized was Rs.51,455,398 and the bank loans not included in the budget was Rs.23,200,000.	<p>Certain estimated field activities etc. could not be properly implemented due to the unfavourable situation which prevailed in the country. As such, only an expenditure of Rs.68 million was actually incurred during the year. Forty per cent of estimated capital expenditure had been saved due to the above reasons.</p> <p>The expected training programmes could not be held due to reasons such as health guidelines imposed by the Government in view of the pandemic which prevailed in the country. As such, a sum of approximately Rs.1.4 million had been saved without being utilized.</p> <p>The Government had provided the above financial facility considering as an emergency and at the time of preparing the budget – 2020, such an uncertainty or requirement had not been identified.</p>	The budget should be prepared accurately.