

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 2021 comprising the statement of financial position as at 31 December 2021 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 and the Companies Act No.07 of 2007. 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, accompanying the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 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 for 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 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 Audit Scope

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 judgement 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 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 discussions 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 preparation of the Financial Statements

1.5.1 Non - Compliance with Sri Lanka Accounting Standards

Non-compliance with reference to particular standard	Management Comment	Recommendation
Since useful life of current assets had not been annually reviewed in terms of paragraph 51 and 61 of Section 16 of Sri Lanka Accounting Standard relating to property plant and equipment, costing of Rs.33,442,625 of office equipment, Rs.7,418,575 of furniture and Rs.500,000 of machineries were further in use in the year under review despite being fully depreciated. Nevertheless, the action was not taken to revise that error in the estimate in terms of Sri Lanka Accounting Standard 08 and show the accurate carrying amount in the financial statements.	The certain assets fully depreciated in the fixed assets register had become scraps and since there is limited number of assets, these assets fully depreciated are used. Similarly, certain assets are not physically available. The attention has been paid to the possibility of revaluing by a qualified institute.	The necessary action should be taken having identified the assets become scrap and not physically available and removed from the cost and the carrying value of the remaining assets should be revised and entered the accurate value in the financial statement.

1.5.2 Documentary Evidences not made available for Audit

Item available	Amount (Rs.)	Evidence not	Management Comment	Recommendation
Property, plant and equipment	Rs. 109 million	The deeds and plans related to 68 leased lands of Rs.109 million shown under property, plant and equipment in the financial position statement had not with the company. Consequently, the legal ownership of the company in relation to lands and clarity of the lands of 5,184 hectares transferred to the company in 1992 couldn't be verified.	When transferring these lands to Chilaw Plantations Limited by Janawasama in 1992, the cadastral maps were not available for the majority of the lands transferred. Planation Management Monitoring Unit in association with Department of Survey had commenced the cadastral mapping of the lands owned by company and presently, the cadastral mapping for 17 plantation units had been completed.	The company should have the documents such as agreements, deeds and plans required for verification the land ownership.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No.PED 01/2015 dated 25 May 2015	On the approval of the Board of Directors of the company on the contrary to the provisions of circular, an amount of Rs. 2,160,000 had been paid to an 04 officers in HM category and 08 officers in MM category as divers' allowance and amount of Rs. 441,887 had been paid to 04 posts in MM 1-1 category which is not entitled to have an official vehicle and 08 posts in JM 1-1 category as transport allowance. An amount of Rs. 87,060 had been paid to an officer who is in post in MM 1-1 category which is not entitled to have an official vehicle as fuel allowance in the year under review. An amount of Rs. 11,463,112 had been paid to 26 officers who serve in relation to HM, MM and JM salary scales of the company as the leaves saved and labours' allowance in the year under review.	If the service of workers with higher talents is obtained, the allowances and privileges granted by the other companies should be given. Even though the circulars which are issued related to state enterprises by institutions Departments whenever possible, it is not mandatory and the Board of Directors has the complete powers to take decisions in compliance with Articles of Association for the growth of the company. In every occasion where a circular and Act conflict, powers given by Act can't be restricted by a Circular.	The allowances should be given as per the circular and if there are amendments, the approval of Treasury should be obtained.

2. Financial Review

2.1 Financial Result

The financial result in the year under review is a profit of Rs.631,978,959 and as compared with the corresponding profit for the preceding year was Rs.265,644,659. Accordingly, it had been observed an improvement of Rs.366,334,300 in the financial result. The increase of sales income by Rs.376,943,855 of the coconut including other crops and other income by Rs.43,044,825 had mainly caused to this growth when comparing with preceding year.

2.2 Trend Analysis on Major Income and Expenditure Items

The income received from the coconuts was Rs.801,718,449 in the year under review and it was Rs.592,179,338 in 2020. Accordingly, as compared with 2020, a growth of 35 percent had shown. The income from sales of cashew was Rs.55,637,407 in 2021 and since it was Rs.37,352,690 in 2020, it was an improvement of 49 percent when comparing with 2020. Similarly, the income received from sales of coconut plants had been grown by Rs.131,273,229 i.e.1196 per cent when comparing with 2020. Further, the administrative expenses of the company was Rs. 135,574,801 in 2020 and it was Rs.206,940,871 in 2021 and shown a growth of 35 percent.

2.3 Ratio Analysis

- The current ratio and the quick assets ratio at the end of year under review were 3:1 and that value in the preceding year was 2:1.
- The gross profit ratio in the year under review was 50 percent and in comparing with that ratio of 41 percent in the preceding year, the gross profit ratio had increased by 9 per cent.
- The net profit ratio in the year under review was 49 percent and in comparing with that ratio of 42 per cent in the preceding year, the net profit ratio had increased by 7 per cent.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Even though it has no objective of granting loans as per the objectives of the Articles of Association, an aggregate of loan amount of Rs.105 million had been granted to Janatha Estate Development Board, Elkaduwa Plantations, State Plantations Corporation of Sri Lanka, Ministry of Public Resources Enterprise Development and Rubber Products Exports Corporation in 2010. At the end of year under review, loan amount and related interest of Rs.72.4 million couldn't be recovered.	The above-mentioned loan amount had been granted to the public institutions by Chilaw Plantations Limited for short term working capital requirements in 2010 as per the instructions of the secretary of the ministry and with the concurrence of the Treasury. The various efforts had been taken in relation to recovery the relevant loan amount from the year in which loan had been granted. However, no action had been taken to pay the relevant loan and accumulative interest.	The action should be taken as per the objectives of the company and the necessary steps should be taken to recover interest and loan granted.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Since the activity of hollow mining and renovation of hollows in Himmaliyagara Estate Belonging to Chilaw Plantations Limited had stopped since one year, the work couldn't be completed within stipulated time period as per the agreement. The company had not taken legal action in relation to violation of the agreement by the contract party and no measures were taken to complete the related task also.	The Chilaw Plantation Limited is due to be taken a decision in the future in relation to renovation of hollow after revoking the agreement.	The entering into agreements should be carried out in formal and realistic manner and if the action is not taken as per agreement, the legal action should be taken in terms of the conditions of the agreement.
(b) Even though it had to be completed 02 projects for renovation of hollows in Akleeshiya and Madugasara Estates on 22 September 2021, the period of contract had been extended through the letters from time to time on non-completion within the stipulated period. The company couldn't complete such task even on 30 November 2022 which was the audited date.	Even though the both parties had come into agreements for the stipulated time period of the contract, so many issues had arisen to complete the tasks within the stipulated period due to environmental and climatic factors and various conflicting situations in the country.	The entering into agreements should be carried out in formal and realistic manner and if the action is not taken as per agreement, the legal action should be taken in terms of the conditions of the agreement.
(c) The price of 01 cube of solid soil and gravel removed in the renovations of hollows in Madugasara, Akashiya and Heenmaliyagara of Madampe Estate of the company had been valued as Rs. 800 on 05 August 2019 by Agrarian Development Department based on the report of District Quotation Committee. The prices are determined by this committee half yearly and it had been observed that the price of one cube of solid soil and soil mixed with gravel/ sand removed in 2021 year also had remained the same as Rs. 800 which was in 2019. The prices had been determined under solid soil/ processed clay groups as per District Price Determination Committee in 2021 without carrying out any site inspection.	If any analysis is carried out for determination a price, the hollow should be visually grouped having fully cutting hollow. Accordingly, as per the soil inspection carried out, the valuations should be done. As it is not a practical task, the common valuation taken by District Price Determination Committee was used for the procurements. .	The prices should be formally determined based on prevailing market prices.

- (d) 10,803 coconut plants had been planted in the coconut cultivation commenced in 2012 in Seenugala field part 05 and an amount of Rs. 27,449,008 had been incurred for that up to end of the year under review. On the audited date, 7,251 coconut plants i.e.67 per cent from overall coconut plants had destroyed. Moreover, even though 10 years elapsed for the coconut cultivation in the above estate part. A water supply method required for related cultivation had not been established.

Even though Rs.663,346 had been incurred by company for weeding for last 05 years, the company was not able to succeed the coconut cultivation activities.

It is due to be established a water supply system for this cultivated land and this total cost is for land development activities at the initial stage and planting up to 2020. Some plants had destroyed due to damage by animals at sapling stage and a fire erupted in a land adjacent to Seenugala Estate. Further, a weakness of maintenance of this land had been shown by the management and the necessary instructions had been already given to the officers for carrying out the agricultural activities properly in due course. Similarly, the renovations of the water pump had been done and water is taken now.

The action should be taken to reveal the reasons for the destruction of the coconut cultivation and take proper remedies for that and improve the required infrastructure also.

- (e) The “Kapruwana” Seed Coconut Project had been established in 2012 in 58 hectares as under planting inside matured coconut cultivation of Kinyama Estate of Chilaw Plantations limited. Even though an amount of Rs.7,355,146 had been incurred at the end of 2021 for maintenance of this land, no income had earned from sales of Kapruwana coconuts. Furthermore, an additional income of Rs.983,175 had earned from sales of Kundira and Sanraman types cultivated in relation to Kapruwana Seed Coconut Project from 2019 to 2021. It had been observed by the audit that a cost of Rs.6,371,971 had to be further recovered after matching such income with the cost. The general earning of a coconut hectare of Chilaw Plantation Limited was Rs.317,865 in 2021 and even though the general earning of land area of Kinyama Estate in extent of 58 hectares should be Rs. 18,436,223, an income of Rs.12,603,226 had only earned from the matured coconut cultivation in above 58 hectares in the year under review. Accordingly, an income of Rs.5,832,997 had lost to the company due to this project. Accordingly, an aggregate of Rs.15,204,968 loss had occurred to the company due to non-utilization of the land owing to this Kapruwana Seed Coconut Project and expense incurred for maintenance the land.
- As per the memorandum of understanding entered into between Coconut Research Institute and Chilaw Plantation Limited, this seed coconut garden had been commenced in 2012. The achievement of the objectives of this seed coconut garden had been delayed due to a difficult situation arisen for maintenance of healthy kola Kundira coconut plants owing to facing kola kundira plants cultivated to less soil humidity and red beetle damage due to not happening pollination naturally.
- The action should be taken to succeed Kapruwana seed coconut project and obtain the expected income through the matured coconut cultivation.
- (f) The remaining coconut plants were 156,375 in 08 estates without removing by the Board presently out of 500,000 coconut plants cultivated by the company for Coconut Cultivation Board and an additional cost had to be incurred by the company for the maintenance of such plants. Similarly, some plants from those coconut plants are destroying now.
- The remaining coconut plants to be brought from the total plants are 129,161. The Coconut Cultivation Board had been made aware continuously on this matter and it had been informed by them that the transportation will be immediately done.
- The action should be taken to reach the success of the joint project through handing over the remaining quantity of plants to the Board.

- | | | | |
|-----|--|--|---|
| (g) | There is a cashew cultivation in 20 hectares of Thuththriwewa, panapitigama, Galkanda and Kongahamula fields of Nikaweratiya Estate and even though an income of Rs.740,000 had been expected through that in 2021,only Rs.287,600 had actually earned by the company. The non-maintenance of cashew cultivation properly had directly affected to the deduction of income. | Those cultivations had been established in 1997 and 1998.The effective period of these cultivations had expired now. Due to that reason, the harvests received are collected and putting fertilizer was not carried out. Similarly, an annual prune is not carried out and generally weedicides are done only in cashew harvesting time. | The measures should be taken to improve the harvest through recultivation. Similarly, realistic revenue estimates should be prepared. |
| (h) | When considering overall, 28.5 per cent of total coconut harvest in 2021 of the company had been considered as fallen coconuts and it had been observed by the audit that there is a high risk of misplacement of coconuts harvest by obtaining considerable amount of coconuts as fallen. | The answers had not been given by the management. | The steps should be taken to reap the harvest at proper time and the internal controls required to be minimized the misplacement of fallen harvest and the risk of destruction should be taken. |
| (i) | As per the document for land utilization of the company in 2021, a total area of 5,733.23 hectares had been mainly utilized for coconut cultivation, cashew cultivation and paddy cultivation as 3,826.85, 758.61 and 432.07 hectares respectively. The measures had not been taken to be cultivated an area of 554.15 hectares which had not been cultivated so far and the facts caused for that had not been presented to the audit also. | The answers had not been given by the management. | The necessary action should be taken to be cultivated the lands which had not been used for cultivation. |

- | | | | |
|-----|---|---|---|
| (j) | As per the age analysis related to the coconut cultivation of the company in 2021, the total coconut plants were 461,837. 302,255 coconut plants out of that exceed more than 20 years. It is about 65 per cent as a percent to the total coconut plants and as per the age analysis related to the cashew plants, total cashew plants are 53,198 and 49,980 cashew plants out of that had been cultivated during 1992 and 2003 and exceeded more than 18 years. It is about 94 per cent as a per cent from total cashew plantation. Accordingly, it had been observed by the audit that the management had failed to implement the novel cultivation projects and to properly maintain the existing cultivation. | The answers had not been given by the management. | The attention should be paid by the company for implementation of novel coconut and cashew cultivation projects and reap higher harvest through proper maintenance of existing cultivation. |
| (k) | A cultivation target of 1,000,000 coconut plants were in the plants nurseries project including in the new projects implemented in 2021 and the corporate new plan in 2020 and 580,989 coconut plants had only been cultivated in the year under review. | The answers had not been given by the management. | The steps should be taken to achieve the targets in the corporate plan. |

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Due to a fault of drowning water pump for the proposed project for the establishment a tube well system in 2015 for water supply of Seenugala Field No.05 and fulfilment of the water requirement of 40.47 hectares through that, it was an idle without usage. Even though the estimated value of this project is Rs. 541,621 the actual expense had not been presented for audit.	The answers had not been given by the management.	The company should take action to fulfil the proposed objectives having carried out necessary renovations.

3.4 Human Resource Management

Audit Issue	Management Comment	Recommendation
(a) Even though it had been approved to be recruited 116 officers in the service of the company related to 32 posts by the letter of Department of Management Services No.DMS/G3/53/5 dated 04 May 2012, 29 vacancies existed related to 15 approved posts of the company up to 31 December 2021. The action had not been taken by the company to refill the vacant posts or revise the approved cadre of the institute suitably.	It is profitable to efficiently and effectively perform more service with less number of workers. Similarly, since it had been planned to broaden the production capacity of the company without revising the cadre on which the approval had been obtained by Department of Management Services, it is maintained to obtain the opportunity for the service requirement arisen. As there is no financial or physical loss occurred to the company through that, the maintenance of such cadre had been maintained.	The necessary steps should be taken to revise the approved cadre suitably to the functions of the company.
(b) 01 permanent post and 01 contract post had been appointed by the company exceeding the approved cadre of the Department of Management Services in the year under review.	Assistant Accountant had been recruited to the service in 2008 on 25.10.2012; the scheme of recruitment for Chilaw Plantations Limited had been approved by Department of Management Services. We have no action to take since he has more than 14 years' service and he has an entitlement for that after receipt of permanent appointment, it is difficult to revoke such post. 02 Sales Officers had been recruited and lady Sales officer who gives training required to them had been recruited on contract basis. Presently, such lady officer is not in the service.	The required recruitments should be carried out for the permanent service only after revising the approved cadre.