

Kurunegala Plantations Limited -2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Plantations Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 the provisions of the Companies Act No.07 of 2007 and 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 accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with the 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 the 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 intend 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 Scope of Audit (Auditor's Responsibilities 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 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 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 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 Observation on preparation of the Financial Statements

1.5.1. Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Even though an aggregate of Rs.8, 432,049 paid for turmeric cultivation since 2020 onwards had been accounted, this expenditure had been shown in the current assets without writing-off against the income earned in the years incurred as per the adjustment concept. Therefore, the current assets and cumulative earnings had been overstated from such amounts.	The closing balance of Rs.8, 432,049 had existed as the expenses incurred for the short-term projects in 2022 and 2023 by Kurunegala Plantations Limited. Once the harvest of the relevant projects is received, the above expenses will be adjusted against the profit.	The action should be taken to write off the expenditure incurred for the turmeric cultivation which is a short-term cultivation against the income earned in the years incurred as per the adjustment concept.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Subsection 5 (I) of part II of Gratuity Payment Act No.12 of 1983	Even though the gratuity should be paid to a worker or his or her heirs within 30 days from the retirement or death of a worker, the payable gratuity balance was Rs.1,251,575 for 2023, the outstanding amount was Rs.680,410 more than 180 days. Similarly, the outstanding gratuity amount was Rs. 1,073,558 related to the previous years and a surcharge of Rs. 9,000,748 had to be paid by the company at the end of 2023 due to non-payment of gratuity amounts on the due date.	An amount of Rs.19 million had to be paid by the company as surcharge owing to non-payment of gratuity at the end of 2023 payments on due dates. This situation had arisen because the legal proceedings taken by the Board of Directors on the query made by the Auditor General's Department on 19.04.2016 had been dismissed by the Court of Appeal and the Supreme Court. Accordingly, the method previously implemented by the company for the payment of gratuity had to be implemented again.	Since the facts are only clarified through an audit query, the company should take action to get accurate decisions on the legal status.

(b)	Internal Circular No.KP/2010/2 2 dated 01 December 2010	Even though the money should be immediately banked in the occasions where the receipt of money exceeds more than Rs.50,000 in the provincial estate offices, The balance of cash in hand of Narammala and Dambadeniya provincial estate offices was Rs.278,923 and Rs.265,330 respectively at the physical inspection.	Due to the practical situations prevailed in the estates, extra money had been retained as cash in hand at the end of the month and the instructions had been given to the estates to maintain the cash in hand in the future as per the circulars issued by us.	The action should be taken to accurately prepare the internal circulars enabling to implement and amend such circulars on formal approvals.
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2. Financial Review

2.1 Financial Results

In accordance with the financial statements submitted, the operating result after tax of the company was a profit of Rs.476.61 million for the year under review and correspondingly, the profit was Rs. 472.37 million in the preceding year. Accordingly, the financial result in the year under review had grown by Rs.4.24 million which 1 percent in comparing with the preceding year. For this, an increase of the profit on fair value of consumable biological assets by Rs.56.53 million and an increase of rubber trees sales income by Rs.18.8 million in the year under review had caused.

2.2 Trend Analysis of major Income and Expenditure items

	2023 (Rs)	2022 (Rs.)	Variance (Rs)	Variance as a percentage %
Revenue	1,010,951,819	1,065,494,048	(54,542,229)	5
Financial and other income	360,781,268	254,961,766	(105,819,502)	42
Cost of Sales	563,224,713	549,558,623	(13,666,090)	2
Administrative Expenses	226,833,617	223,251,034	(3,582,584)	2
Finance Expenses	47,244,012	36,106,755	(11,137,257)	31

2.3 Ratio Analysis

- At the end of year under review, the current assets ratio and quick assets ratio 5:1 and 5:1 and such ratios in the preceding year were 4:1 and 4:1.
- In the year under review, the gross profit ratio was 44 percent and the gross profit ratio had deteriorated by 4 percent when comparing such ratio which was 48 percent in the preceding year.
- In the year under review, the net profit ratio 47 percent and such ratio had grown by 3 percent when comparing with the net profit ratio which was 44 percent in the preceding year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue

Even though an estimate of Rs.6,500,000 had been prepared for the construction of Dambadeniya provincial estate office building of the company, Rs.7, 038,605 had been incurred for the construction of the office building from 2020 to January 2024 and it was observed that it was an increase of Rs.538, 605 than the estimated value and the expenditure could be further increased owing to non-completion of the works of the building up to now. An approval had not been also obtained on incurring expenses than the estimated value. The estimate for materials related to this construction had not been prepared and the expenses pertaining to that had not been verified by the relevant measurement sheets.

Management Comment

The bill of quantities had been prepared for this and the estimate for materials had not been prepared. The instructions had been given to prepare an estimate for materials for the activities to be carried out in the future. The goods are purchased as per the requirement and such goods had been used after entering such goods into accounts and making issuing notes.

An additional amount has to be incurred for the completion of the works of this construction due to abnormal increase of goods and services in the previous years.

Recommendation

The action should be taken to control the expenditure through purchase of materials and quantities required having prepared a bill of quantity and an estimate for materials for the construction activities.

3.2 Management Inefficiencies

Audit Issue

- (a) The debtor's balances of Rs.1, 688,527 exceeding 03 years and Rs.4, 677,838 exceeding 08 years within the coconut products debtors' balance of Rs.63, 510,576 as at 31 December 2023 had not been recovered even at the end of the year under review.

- (b) At the physical inspection, it was observed that CCTV equipment worth of Rs.974,500 purchased in December 2023 for installation in 07 estates belonging to Hiriyala Provincial Estate Office had not been utilized for the targeted purpose and had not included into the fixed assets register and kept in Ganewatta store.

Management Comment

The action is being taken to recover the loans from these debtors.

Since this installation will be carried out by estate superintendent, it delayed. He had agreed to complete it up to 15 June.

Recommendation

The action should be immediately taken to recover long-term debtors' balances.

The action should be taken to include the CCTV camera equipment into the fixed assets register and utilize for the targeted purpose.