

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalubowitiyana Tea Factory Limited (“Company”) for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the statement of profit and loss, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 report 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 March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 determine 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 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 Audit Scope (Auditor's responsibility regarding the audit of 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 skepticism 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 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 the Sri Lanka Accounting Standards

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
Although the assets and liabilities should not be offset unless specifically required or permitted as per the Paragraph 32 of the Sri Lanka Accounting Standard 01, the company had offset the expenses payable and advances and previous payments with each other, and a sum of Rs. 22,488,718 had been accounted as a receivable balance under the Current Assets of the Financial Statement.	The Control Account and other Ledger Accounts are prepared through AP Module of Olax software system. The disparity has been created due to a technical error of the software system. The rectifications are already been done through the Olax institution.	According to Sri Lanka Accounting Standards, the account balances in financial statements should be presented so that the assets and liabilities do not offset each other.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As the company's trade debtor balance included returned stocks and stock shortages totalling Rs. 1,490,504 at the end of the year under review, the debtors were overstated by that amount.	Actions will be taken to correct the debtor balance in the coming financial year.	The returned stocks and stock shortages should be adjusted accurately in the accounts.

(b)	Since the Rs. 2,833,151 incurred for the printing of made tea packaging materials had been accounted as an expense in advance without being recognized as an asset under property, plant and equipment, the current assets had been overstated and the value of the property, plant and equipment had been devalued by that amount.	Actions will be taken to ensure accurate accounting in the coming financial year.	Actions should be taken to identify and adjust the costs incurred for the acquisition of assets under the correct category in the accounts.
(c)	5,228 kilograms of tea worth about Rs. 8,243,040, which was included in the made tea stock of the Derangala Tea Factory, were identified as refused tea and removed from the final made tea stock in December 2024. As per the available audit evidence, it was observed that this refused tea stock was also included in the final made tea stock as of 31 March 2024. Therefore, the accuracy of the final made tea stock worth Rs. 31,593,130 of the Derangala Tea Factory reported in the financial statements is suspicious.	It is not possible to provide a definitive answer on this matter and a definitive statement will be made after the ongoing internal investigation is completed.	Physical verification of the stock should be done accurately as at the balance sheet date and the identified balances should be adjusted in the accounts.
(d)	Although the company did not have an accounting policy for the provision for bad debts and doubtful loans, provisions for bad debts and doubtful loans of Rs. 1,846,032 had been disclosed in the financial statements and the balance in that account had remained unchanged for more than 02 years.	Actions will be taken to remove the balance of Rs. 1,846,032, which was set aside for the company's bad and doubtful debts, from the accounts in the next financial year with the approval of the Board of Directors.	The accounting policy for adjusting bad and doubtful debts should be disclosed in the financial statements and accounted accordingly.

1.6 Funds receivable

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken to settle the unsettled receivable balances amounting to Rs. 423,761 relating to the advances given to raw leaf suppliers at Hiniduma Hills Factory for more than 05 years even by the end of the year under review.	The efforts are being made to minimize this balance and a meeting is held every month in this regard to review progress regarding the recovery of debtor balances. The Letters of Demand have been issued for two leaf transport agents to date.	Formal measures should be taken to promptly recover the relevant advance money or to obtain tea leaves from the leaf suppliers for that purpose.

1.7 Non-compliance with laws, rules, regulations and management decisions, etc.

	Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Paragraph 3 of Public Enterprise Circular No. 01/2021 dated 16 November 2021	Actions had not been taken to approve an operational manual and act accordingly regarding the company's operational processes and controls, including human resource management.	The drafted administrative manual has been submitted to the Department of Public Enterprises for necessary actions.	Prompt actions should be taken to obtain the approval for the operational manual and expedite the implementation of administrative activities accordingly.
(b)	Circular No. 257/2022 dated 13 June 2022	Although 4,460 kilograms of tea worth Rs. 5,358,333, which did not meet the standards to be released for auction or the local market have been named as refused tea and removed from the final made tea stock after the year-end physical tea stock verification of the Menikdiwela Tea Factory, the actions had not been taken to report this to the Audit Committee and the Board of Directors and obtain the necessary approval.	The actions will be taken to ensure that such tea stocks do not include unusually rejected tea in the future and if such a situation occurs, the steps will be taken to obtain the approval of the Board of Directors through the Audit Committee.	The actions should be taken to proceed with the proper approval of the relevant authorities as per the Circular Guidelines.
(c)	Paragraph (i) of Circular No. 239/2022 dated 18 February 2022	Although the Assistant Manager (Sales) and Manager (Finance) should ensure that sales made by the tea shop for which money has not been received for more than 30, 60 and 90 days are recovered without delay, money amounting to Rs. 1,837,152 due from the sales of tea packets for more than a year had not been recovered even by the audited date.	An investigation in this regard has been conducted and the relevant reports have been issued as well as further actions are to be taken by referring those reports to the governing authority. The follow-up activities are being carried out regularly to promptly recover the other balances to be recovered that are being maintained for more than a year	In terms of the circular guidelines, the responsible party should take immediate steps to avoid maintaining long-standing receivable balances and to settle existing balances.

2. Financial Review

2.1 Financial Results

The net profit after tax for the year under review was Rs. 55,574,507, while the net profit after tax for the previous year was Rs. 220,800,775. Accordingly, a decrease of Rs. 165,226,268 was observed in the financial result. This decrease had been mainly due to the decrease in made tea sales revenue by Rs.845,922,552 and the decrease in refused tea sales revenue by Rs.18,534,701 compared to the previous year.

2.2 Trend analysis of major income and expenditure items

The company's sales revenue has decreased by 32 per cent in comparison with the previous year and this decrease is mainly due to the drop in sales revenue of the Hiniduma Hills factory by 31 per cent and the decrease in sales revenue of the Kalubowitiyana factory by 34 per cent. Also, due to the increase in fixed deposit interest income compared to the previous year, financial income has increased by 64 per cent in the year under review. It is observed that sales and distribution expenses have increased by 225 per cent in the analysis of cost components.

2.3 Ratio Analysis

The current and quick assets ratio of the year under review stood at 5:1 and 3:1 respectively, while such ratios in the preceding year stood at 4:1 and 2:1 respectively. These ratios had taken a higher value than the optimum level due to a situation of overworking capital.

3. Operational Review

3.1 Management inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) On the land of 4.075 hectare where the Kalubowitiyana Tea Factory is located, 15 unauthorized occupants have been residing on an area of 0.802 hectare since 1989 and 1996, and the company had failed to evict them and clear the land even by the end of the year under review.	The requests have been made to the Pitabeddara Divisional Secretary to cancel the permits issued to unauthorized residents and take over the said land area to the Kalubowitiyana factory.	After completing legal title checks, necessary legal steps should be taken to resolve the ownership of the land through legal actions.
(b) The Hiniduma Hills and Menikdiwela Tea Factories, which were started under the Tea Shakthi Fund, were handed over to the Company for operational activities in 2012 and 2015 respectively and the Company had also provided a loan of Rs. 50 million to the Tea Shakthi Fund on 09 April 2015. In terms of the Cabinet Decision No. CP/19/0743/117/024 dated 19 March 2019, approval had been received for the Company	A written request has been made to the Land Reforms Commission to transfer the land; wherein the Hiniduma Hills factory is located, to the company, and the Provincial Land Commissioner has given the necessary recommendation to the Commissioner General of Lands to transfer the land; where the Menikdiwela factory is located, to the company.	In terms of the Cabinet Decision, immediate steps should be taken to take over the ownership of the factories to the Company.

to legally take over the ownership of the Hiniduma and Menikdiwela Tea Factories in return for this amount and the relevant interest. However, the legal ownership of those factories had not been taken over until the end of the year under review.

3.2 Operational inefficiencies

Audit Observation	Comments of the Management	Recommendation
Kalubovitiyana tea factory has recorded a profit of Rs.146.05 million. When compared to last year profit amounting to Rs.360.73 million, it was 60 per cent reduction. The Hiniduma Hills tea factory had also recorded a loss amounting to Rs. 30.89 million despite the last year's profit amounting to Rs.1.33 million, and Derangala, Menikdewela and Battaramulla sales outlets too had recorded losses amounting to Rs. 24.15 million, Rs.35.22 million and Rs.1.27 million respectively.	The main cause for this loss is the reduction in the selling price of tea, the increase in production costs, the decrease in the percentage of made tea due to the decline of the standard of tea leaves, the fact that our tea factory was compelled to pay extra money for the tea leaves exceeding the amount that could have been paid according to the fair method in order to face the competition as the competing private tea factories in the area were paying extra amount to purchase the leaves.	The Company should properly study the current internal and external environmental factors surrounding the tea industry and take all necessary steps to operate the tea factories profitably.

3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
Although the Company had received Rs. 18,204,900 as Government grant in 2021 for adapting factories to new technology, the introduction of computerized technology for sharpening CTC cutters and the purchase and installation of 02 CTC tea grading machines had not been completed by 31 March 2024 among its approved procurement tasks. Consequently, the grant of Rs. 7,620,900 had remained in the company.	The supplier has requested an advance payment of 70% for the provision of the relevant machinery, and however, the advance payment requested in the bid document is stated as 30%. The supplier has been informed in writing on several occasions to provide the machinery as agreed. In this regard, the supplier has also been informed in writing on 29.07.2024 and the supplier has not responded to date.	The project to adapt tea factories to new technology should be completed expeditiously, utilizing government grants effectively.

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
Although the annual made tea production capacity of Kalubovitiyana, Derangala, Hiniduma Hills and Menikdiwala tea factories stood at 1,440,000 kg, 576,000 kg, 516,000 kg, 300,000 kg respectively, the capacity underutilization of those factories had reached 40 to 79 high percentage due to made tea production thereof being stood at 858,881kg, 208,325kg, 109,986kg and 174,545kg respectively in the year under review.	The capacity of the factories has been underutilized due to basic factors such as high costs of fertilizer, inability of tea smallholders to achieve the target yield due to inadequate application of fertilizers and the prevalence of an intense competition to obtain tea leaves as several private factories are located near the factories.	The company should take actions to increase made tea capacity to an optimal level by identifying and adopting new management strategies.

3.5 Management of Human Resources

Audit Observation	Comments of the Management	Recommendation
Although there were 39 posts in the cadre of the head office approved by the Management Services Department, 21 of them and 35 of the 81 posts in the staff of the tea factories approved by the Board of Directors had been vacant.	The Board of Directors had approved 81 posts for the tea factories when they were operating at maximum capacity. However, the recruitments have been suspended since the factories are operating below their production capacity, in order to minimize financial expenses, due to the decrease of quantity of leaves received owing to the existing competition in purchasing tea leaves in the area, and the requirement of minimizing the level of losses in the factories that are in a loss-making situation. However, when vacancies arise in essential posts in the factories, the actions are taken to recruit the employees as and when such vacancies occur.	Action should be taken to recruit employees for the essential posts to achieve the objectives of the Company and enhance the performance thereof.

