Sri Lanka State Plantation Corporation - 2017

The audit of financial statements of the Sri Lanka State Plantation Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971 and Section 23 of the State Agricultural Corporation Act, No. 11 of 1972.My observations on the operation of the company during the year under review which I consider should be presented to parliament in term of Section 154 (6) of the constitution of the Democratic Socialist Republic of Sri Lanka, appear in transaction report tabled in parliament on 22nd October 2018 and in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of financial statements in order to design audit procedure that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of the report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka State Plantation Corporation as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1. Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard No. 01

(i) Although it was stated that transactions and events should be brought to accounts on accrual basis in terms of paragraph 27, the cash basis was taken into account instead of accounting on the accrual basis in the calculation of the expenses of the Corporation. As revealed in the audit test checks, expenditure of Rs. 1,353,184 paid in the year under review in relation to previous years had been brought to accounts as expenditure in the year under review and expenditure of Rs. 1,429,559 paid in the ensuing year related to the year under review had been brought to accounts as an expenditure for the year 2018. Moreover, the property tax revenue of the Corporation calculated on the accrual basis for the year under review was Rs.59,162,232 and since the revenue amounting to Rs.25,285,441 received in the year under review out of that tax revenue had only been brought to accounts, the property tax revenue had been under-calculated by Rs.33,872,791.

(ii) Although it has been stated in paragraph 32 that assets, liabilities or income should not be offset by an entity except when it is required or permitted by a Standard, the Company, on the contrary, has written off the expenditure on selling trees amounted to Rs. 551,425 against the revenue and it had been brought to accounts.

(b) **Sri Lanka Accounting Standard No. 16**

(i) Although property, plant and equipment had to be identified and brought to accounts as per the definitions stipulated in paragraph 6 of the Standard, property in extent of 9863 hectares of land belonging to 12 estates controlled by the Corporation had not been valued and brought to accounts under leasehold assets.

(ii) Although assets had to be brought to accounts on updated values by functioning as per the provisions stipulated in paragraph 34 of the Standard, assets such as lands, buildings, machinery, vehicles and furniture, which had a net value of Rs. 750,687,203 as stated in the statement of financial position have not yet been revalued and accounted at the fair value.

(iii) Although it had been stated as per paragraph 37 that only assets of a similar nature and usage should be categorized and brought to accounts, all the items such as computers worth Rs. 824,772, furniture and fittings worth Rs.4,789,890 and equipment worth Rs. 18,519,824 had been brought to accounts as Equipment and Furniture Account".

(iv) Although it has been stated in paragraph 59 that the cost of land development and rehabilitation should be depreciated over the period in which the benefits from that cost are derived, land development cost amounting to Rs. 25,345,972 incurred in the year 1985 had not been depreciated even by the year under review.

(c) **Sri Lanka Accounting Standard No. 40**

The following disclosures stipulated in Sri Lanka Accounting Standard No. 40 had not been made in relation to the balance referred to as investment assets amounting to Rs.1,611,520,641 indicated in the statement of financial position regarding the lands received by the Land Reforms Commission in the year 1982.

(i) Whether the fair value model or the cost model had been used to value the property as per paragraph 75 (a).

(ii) Whether there are contractual obligations in relation to the purchases, constructions, developments, renovations, maintenance or improvements of the aforesaid investment properties as per paragraph 75 (h).

(iii) Details of the invested property as per paragraph 78 (a) i.e. the extent of tea estates transferred to the Corporation by the Gazette Notification No. 181/12 dated 27 February 1982.

(d) **Sri Lanka Accounting Standard No. 41**

Although forest farming should be accounted under consumer biological assets as per paragraph 4 of the Standard, the cost of forest farming amounting to Rs.23,191,779 had been indicated under the bearer biological assets in the statement of financial position.

2.2.2 Accounting Policies

The following observations are made.

(a) Without complying with the provisions stipulated in relation to application and derecognition of the Accounting Policies in terms of paragraphs 39 and 40 of Sri Lanka Accounting Standard No.8, the accounting policy, through which it had been disclosed that the cost of developing lands amounting to Rs. 4,577,424 stated in financial statements in the year 2015 should be fully depreciated by 15 years, had been derecognized in the ensuing year, i.e. in the year 2016 and in the year under review from the financial statements without any disclosure.

(b) The accounting policies, related to the transfer of bearer biological assets of Rs.491,778,619 included in the financial statements of the year under review from immature cultivation to mature cultivation, had not been disclosed.

(c) Although it had been mentioned that the decrease or increase in the value of consumer biological assets through the valuation of them as per the Accounting Policy submitted with the Financial Statements would be stated in the statement of comprehensive income, the assets, which had been valued at Rs. 3,312,160,200 in the year 2012 had been also stated in the statement of financial position in the year under review at the same value without conducting such a valuation.

(d) An accounting policy, underlying the balance of doubtful debt amounting to Rs.1,591,349, which had been outstanding even prior to the year 1996, had not been disclosed.

2.2.3 Accounting deficiencies

The following observations are made.

(a) It was observed that tea plant nurseries worth Rs. 3,963,592 related to the four estates indicated as current assets in the statement of financial position had not been physically standing at the end of the year and the value of the stock of tea plant nurseries belonging to the two estates indicated as Rs. 1,253,378 had become zero due to the expiration of stock and as a result, current assets had been over represented by Rs. 5,216,970 and the profit for the year had been over calculated by that amount.

(b) Financial statements had been prepared by considering the book value of Rs.13,969,789 without conducting a physical calculation of finished tea stocks in estates such as Kelebokka, Midland and Rangala as at 31 December in the year under review.

(c) Although the cultivations valued at Rs.23,191,779 belonging to the period of 2013-2017 as revealed by the financial statements should have been brought to accounts as immature cultivations, the cultivations had not been classified so and brought to accounts. Further, this immature cultivation had been erroneously amortized to an amount of Rs. 757,763 in the year under review.

(d) Since the management fee of the year under review amounted to Rs. 15,688,237 calculated nominally based on the monthly yield of tender tea leaves of the estates had been brought to accounts as income of the Head Office and the expenditure of the estates, the revenue and expenditure had been over calculated by that value in the year under review.

(e) The cash flow statement submitted as a part of the financial statements for the year under review had been prepared with the following accounting deficiencies.

(i) The value of Rs. 2,094,230, which was the non-estimated value of the work amounting to Rs. 2,754,250 for the renovation of the roof of the Lebanese factory at Gomara Estate, had been brought to accounts as an increase in net cash flow from investment activities.

(ii) The expenditure of Rs. 732,397 incurred by the Hunnasgiriya Estate for plant nurseries in the years 2008 and 2011 had been erroneously recorded in the cash flow as net cash flow received from the investment activities in the year under review.

(iii) Although the gratuity allocation expenditure amounting to Rs. 27,835,515 had been brought to accounts under establishment and administrative expenses in the statement of income for the year under review, it had been adjusted as Rs. 36,159,924 to the profit before taxation in the cash flow statement. Accordingly, the loss before working capital changes had been understated by Rs. 8,324,409 in the cash flow statement.

(iv) Although the value of the holiday allowance amounting to Rs. 25,272,138, adjusted under the cost of sales in the year under review should be added to the profit before taxation and the value of Rs. 16,013,348 paid in cash in the year under review should be adjusted as cash flows under operational activities, the value of Rs. 9,258,790, which was its net effect had been adjusted to loss before taxation in the cash flow statement.

(v) Although the amount of gratuity liabilities paid in cash as per the cash flow statement had been indicated as Rs. 43,716,033, the actual amount paid had been Rs. 48,099,619. Therefore, changes in working capital had been understated by Rs. 4,383,586.

(vi) The interest income of Rs. 757,992 received on a fixed deposit of the Corporation had not been stated under investment activities in the cash flow statement. However, only the reinvestment of that interest had been indicated under investment activities.

(f) Although the compensation amounting to 1,910,225 paid by the corporation in a labour tribunal case in the year 2015 should have been brought to accounts as an expense of that year, it had not been done so and it had been stated under current assets and current liabilities in the statement of financial position in the year under review.

(g) Although it had been confirmed to the audit that the advance balance of Rs.3,582,523, obtained from the buyers of tender tea leaves in the year 2014 for the supply of tea leaves had been settled, it has been indicated as a balance to be paid further under current liabilities in the statement of financial position.

(h) Since interest income of Rs. 339,262 related to the year under review for fixed deposits had been understated, the loss of the Corporation for the year under review had been overstated by that amount.

(i) Heirpark Estate had over-calculated the cost of Rs. 39,330 incurred for the renovation of buildings, as Rs. 142,340 by Rs. 103,010 and capitalized it.

(j) The rubber plantation started at the expense totalling to Rs. 11,162,741 in Opalgala and Midland Estates in the years 2011 and 2012 had become unsuccessful and approximately 60 percent of this plantation had been destroyed and the rest of the plantation had not become matured. However, the amortization for these costs had been calculated in the financial statements since 2011 and the amortization amount of Rs.329,097 had been brought to accounts also in the year under review.

(k) The amortization was calculated irrespective of the year in which the mature tea plantations of the Corporation were started and the cultivations existed up to the year 2012 had been amortized for 42 years. After that, the amortization had been calculated on the remaining net value over the period of 58 years. There\fore, the amortization of the cultivation with 570,315 tea trees, which had exceeded 100 years and of which the depreciation should have been completed by this moment had been calculated and brought to accounts also in the year under review.

(l) The office rent value of Rs. 686,000, which had been offset for an amount to be received from the Coconut Development Board as at 31 December 2017 had been brought to accounts under expenses to be paid further and had been indicated under current liabilities in the statement of financial position.

(m) The depreciation value of Rs. 636,820 in the year under review had been overstated due to errors in the calculation of depreciation in respect of buildings, equipment, furniture and vehicles included in the property, plant and equipment.

(n) A few years ago, an expense amounting to Rs. 347,866 had been incurred for the preparation of the land for the plant nursery at Galpilla Estate and this expense does not generate any economic benefits to the Company due to the failure in achieving the relevant objective, Nevertheless, it had not been identified as an expense even at the end of the year under review and it had been stated under the deferred assets in the statement of financial position.

2.2.4 Unreconciled Control Accounts

A difference of Rs. 1,930,180 was observed between the debit and credit balances of the Inter Estate Control Accounts.

2.2.5 Unexplained Differences

The following observations are made.

(a) There were differences among the fixed assets registers such as bearer biological assets, consumer biological and property, plant and equipment and the ledger accounts, in which the relevant assets had been recorded amounting to Rs. 356,511,198 Rs. 78,757,739 Rs.83,649,011 respectively.

(**b**) An unbalanced credit balance of Rs. 27,031,206 was observed between current accounts of the Head Office and current accounts of 06 estates and unbalanced debit balance of Rs. 11,459,752 was observed in 07 estates. The net balance of Rs.15,571,454 generated by offsetting these balances had been brought to accounts under current liabilities as an estate current account balance in the statement of financial position.

2.2.6 Accounts receivable and payable

The following observations are made.

(**a**) Effective action had not been taken even in the year under review to recover debtor balances amounting to Rs.16,285,002, **Rs.** 79,512,499 **and Rs.** 1,534,980, which had been outstanding for more than 15 years, between 05 to 15 years and between 03 to 05 years respectively within the debtor balance amounting to Rs.106,392,662 indicated under current assets.

(**b**) There had been 11 festival advance balances amounting to Rs. 4,098,854, which had been older for a period of 1 year to 10 years in the debtor balances of estates and 10 other miscellaneous debtor balances worth Rs. 693,737, which had not been disclosed for one year. Action had not been taken to settle these balances by the end of the year under review.

(**c**) It had been identified at the end of the year under review, that a sum of Rs.225,800,668 or 91 percent out of the creditor balance of Rs. 249,480,276 in the Head office by the end of the year under review was a creditor balance, which had exceeded five years and the Corporation had not been able to settle these balances even by the end of the year under review.

(**d**) The Chairman of the Corporation had given a loan of Rs. 6 million to one Plantation Company on 15 October 2014 without entering into an agreement and a sum of Rs. 1,916,092 out of that had not been recovered even by the end of the year under review.

2.2.7 Lack of evidence for audit

The following observations are made.

(**a**) The cost of lands, buildings, vehicles, machinery, office equipment amounting to Rs. 1,119,439,438 and provision for accumulated depreciation for those assets amounting to Rs. 368,752,219 had been indicated in the financial statements and the Corporation was not in the possession of deeds / licenses and registered certificates to confirm the ownership of each asset.

(**b**) Although the balance of the consumer biological assets as per the ledger accounts of the head office was Rs. 229,104,709, a balance had not been stated for such an asset according to the fixed assets register. Information to confirm the balance stated in the Head Office and information regarding the estates under plantation, fields or tree species and quantities had not been submitted to the audit.

(**c**) Balance confirmations of creditor balances totalling to Rs. 185,263,543 comprised of Rs. 170,050,970 **and Rs.** 15,212,573 in Head Office and in estates respectively and Balance confirmations of 09 debtor balances totalling to Rs. 31,884,203 had not been submitted to audit.

(**d**) A balance of Rs. 6,379,570 in 12 estates, which had been stated from the year 2006 had been stated as refundable tender deposits under current liabilities in the statement of financial position also in the year under review and any evidence had not been presented to the audit to confirm tenders, for which these refundable deposits were made or to confirm whether they were actually tender deposits.

(**e**) Miscellaneous creditor balances totalling to Rs. 5,918,678, which had been existing even before the year 2006 and debtor balances totalling to Rs.95,761,828 had been stated in the statement of financial position in the year under review. A schedule on these debtor balances and creditor balances had not been maintained by the Corporation.

(**f**) A dormant account balance amounting to Rs. 1,933,043, which had been outstanding even prior to the year 2012 had been indicated as other payables in current liabilities in the statement of financial position also in the year under review and any register or information pertaining to the confirmation of this balance had not been submitted to audit.

2.2.8 Non-compliance with rules, regulations and management Decisions

	Reference to Laws, Rules and Regulations	Non-compliance
(**a**)	Paragraph 6.5.1 of the Public Enterprises Circular No. 12 of 02 June 2003	Although the annual accounts relevant to the entity should be submitted to the Auditor General within 60 days after the closure of the financial year, the Accounts

		of the Corporation for the year under review had been submitted to the Auditor General on 06 September 2019 and the time for submitting the accounts had elapsed by 1 1/2 years.
(**b**)	Section 16 (i) of Part ii of the Employees' Trust Fund Act, No. 46 of 1980 and Section 15 of the Employees Provident Fund Act, No. 15 of 1958	Although the employer is required to compute contributions in relation to total earnings of his employee and remit the contributions to the fund on or before the last day of the succeeding month, the liabilities of the Employees’ Trust Fund amounting to Rs. 17,699,132, which had not been paid from the year 2006 up to the end of the year under review and the liabilities of Employees’ Provident Fund amounting to Rs. 406,826,195 had not been paid even by the last day of the year under review and as a result, the Corporation had to incur a surcharge liability of Rs.50,196,414.
(**c**)	Part 5 (1) of the Gratuity Act, No. 12 of 1983	Although it is required to pay gratuity within one month after the resignation or retirement of an employee, gratuity liabilities totalling to Rs.230,756,034 that should have been paid to employees who had left the service during the period of 1970 to 31 October 2017 had not been paid even by the last date of the year under review. As a result, the Corporation had to incur a surcharge liability of Rs. 14,841,411.
(**d**)	Section 44 (b) of the Employees' Trust Fund Act No. 46 of 1980	Although the contribution should be calculated on the earnings of the employee including the cost of living allowance, the Corporation had calculated the relevant contribution based on the basic salary of employee and as a result, the contribution of the Employees' Trust Fund had been under calculated by Rs. 217,019 and brought to accounts.
(**e**)	Section 47 (b) of the Employees’ Provident Fund Act, No. 15 of 1958	Although the contribution of the employee and the employer to the Employees’ Provident Fund should be calculated on the earnings of the employee including the cost of living allowance, the Corporation had under calculated the Provident Fund by Rs. 442,442 and paid it as the relevant contribution for the year under review had been calculated based on the basic salary of the employees.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year ended 31 December 2017 had been a loss of Rs.94,932,600 and the corresponding loss for the preceding year was Rs.150,916,820. Accordingly, the loss in the year under review had been reduced by Rs.55,984,220 as compared with the preceding year. The increase in the sales income of finished tea and tender green tea leaves by Rs.233,209,118 as compared with the preceding year had been the main reason for the decrease in the aforesaid loss.

In the analysis of the financial results of the year under review and 04 preceding years, it was observed that the surplus of the year 2013 was Rs.233,346,559 and it had been increased up to Rs.247,673,971 in the year 2014. The contribution amounting to Rs.233,346,559 in the year 2013 had been increased up to Rs.502,277,402 at the end of the year under review in readjusting the employee remuneration and depreciation for non-current assets to the financial result.