

Galoya Plantations (Pvt.) Limited -2018/2019

1.1 Qualified Opinion

The audit of the financial statements of the Galoya Plantations (Pvt.) Limited (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of profit and loss and other 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Emphasis on a Matter

It is paid your attention on Note 5 of the financial statements and accordingly, occurring a net loss of Rs. 1,817,576,166 for the year ended 31 March 2019 and, since there was a liability of Rs. 6,234,978,109 exceeding the total assets of the Company on that date, the continuity of the Company is uncertain.

However, the Management has developed a planned investment and an Action Plan and the Management expects it to generate a positive cash flow and profit in future and the Plan is being supervised by the Board of Directors to cover the losses occurred. Accordingly, since making investments in the Ethanol Plant and the Company's plantation has reached its expected capacity level, it has been planned to generate expected profit and positive cash flow by introducing a new project to increase production levels and power generation and the attention has been drawn on the impact of profitability and cash flows from the Plans on decisions making by the Company and the opinion of the Board of Directors is that the activities of the Company can be carried out continuously.

1.3 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 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.

1.4 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.

1.2 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 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.

1.6 Comments on Financial Statements

1.6.1 Non- compliance with Sri Lanka Accounting Standards

The following non- compliances were observed.

Non-compliance**Comments of the Management****Recommendation**

Review of the residual value and the lifetime of an asset during every financial year according to Paragraph 51 of the Sri Lanka Accounting Standard No. 16 and if there is a difference from the existing assessments, although it should be accounted for as an assessment difference as per the Sri Lanka Accounting Standard No. 8, the Machinery, furniture, vehicles and agricultural equipment, that had fully depreciated and currently in use, cost at Rs. 237,335,416 had not been re-valued and taken into account.

We are working to re-evaluate the life of fully depreciated assets and adjust the total impact to the accounts of the year 2019/2020 .

The effective life of the asset should be reviewed and re-valued and taken into the accounts as per the Accounting Standard.

1.6.2 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observation**Comments of the Management****Recommendation**

As per the policy of the Company for the provision for bad debtors, although a provision of Rs. 80,862,380 should be made for bad debts as Rs. 35,457,048 for the loans for soil preparation for sugarcane cultivation and a sum of Rs. 45,405,332 for the loans for other agricultural activities, as a result of provision of Rs. 69,635,106 made by the Company as bad debts without considering the relevant policy, the bad debt provisions had been understated by a sum of Rs. 11,227,274 .

Our allocation procedure is for balances over 4 years for medium term credit transactions and for short-term credit transactions with credit balances greater than 2 years subjected to charges confirmed by the Plantation Division of the Institute . The Plantation Division of the Institute has assured to recover overdue arrears during the year and a sum of Rs. 2,947,155 out of the arrears balance up to November 2019 has been recovered by now .

The provision for bad debtors should be made accurately as per the accounting policy.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules, and Regulations etc.	Non-compliance	Commentary on management	Recommendation
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Public Enterprises Circular No. PED / 12 of 02 June 2003	(i) Paragraph h 6.5.1 Although the Draft Annual Report should be submitted to the Auditor General within 60 days of the end of the financial year, the Company had submitted its financial statements five months delayed on 30 October 2019 and the Draft Annual Report had not been submitted.	Due to the long cultivation season (May to September), the Company had to deploy more in farmers payments and other related payments. Therefore an unexpected delay in the preparation of schedules and other audit requirements has occurred. However, with the expected increase in resources, we will take actions to submit the financial statements to the audit in next year in due time.	Actions should be taken to prepare the financial statements in terms of the Circular and submit them to the Auditor General.
(ii) Paragraph 9.3.1	Although a Scheme of Recruitment should be prepared with regard to the each institution, the recruitment had been done during the year under review without preparing an approved Scheme of Recruitment for the Company.	Under the Management Agreement signed between the Government of Sri Lanka and the Company, the authority has been set up to establish a Company called Galoya Holdings (Pvt.) Company to manage the business. We have obtained	Recruitment of employees for the Company should be done in accordance with the approved Scheme of Recruitment.

formal approval from the Board of Directors of Galoya Plantations (Pvt.) Company and Galoya Holdings (Pvt.) Company for the Estimated Employee Plan prepared based on the actual employee requirement, in accordance with the Management Agreement.

2. Review

2.1 Financial Results

The operational results for the year under review was a loss Rs. 1,814,145,920 and the corresponding loss for the preceding year was Rs. 1,347,528,120. Accordingly, a deterioration of Rs. 466,617,800 was observed in financial results. The interest paid on loans obtained by the Company had attributed to this deterioration .

2.2 Ratio Analysis

The current ratio from 1: 0.25 to 1: 0.21 and the liquidity ratio from 1: 0.08 to 1: 0.07 had decreased from the year under review as compared to the preceding year

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation -----	Comments of the Management -----	Recommendation -----
(a)	Due to non-payment of lease installments due in the year under review for the leasing facilities obtained by the Company from financial institutions, a sum of	Certain lease payments were delayed due to the poor cash inflow of the Company. The Management is considering the possibility of redeeming these balances in consultation with the	Management should take arrangements to avoid paying additional interest by paying the lease premium on a specified date.

- Rs. 5,812,203 had to be paid as an additional interest.
- (b) Steps have not been taken to recover the balance of Rs. 383,000 for more than 03 years for the sugar supplied to the Employees Welfare Association of Galoya Plantations (Pvt.) Company.
- (c) The Management had not taken action to recover the advances provided to the suppliers of raw materials and services of the Company older than 03 years amounting to Rs. 3,951,090 and Rs.2,831,338 respectively by the date of audit.
- Management of the respective leasing companies.
- The sales have been carried out with consumers in the Eastern Province with the objective to promote sugar sales through the welfare shop. Even though the payments have been made by cheques to the welfare outlet by the buyer, all cheques had been rejected due to insufficient funds in the account. Later, the welfare shop has filed a case against the customer at the Ampara Magistrate's Court and through the court process, out of the balance receivable as at 31 March 2019 amounted to Rs. 422,000, a sum of Rs. 39,000 should be received and the balance is in due.
- Although it has been informed to take legal action against the supplier since he is under cover and due to the settlement costs the legal actions has not been taken in this regard and the Board of Directors of Galoya Plantations has been informed about this.
- As some of the work is still to be completed by Story Line since the Administrative Division is unable to issue invoices and service receipt notes (SRNs), it is impossible to write down the advance amount as expenses.
- Devmini Holdings (Pvt.) Ltd. has provided road
- Necessary steps should be expedited to recover further receivables.
- Necessary measures should be taken to recover the advance payments made.

levelling activities by then. However, he has withdrawn his machines without producing the invoice and the invoice and value of his work done was Rs.154,500.

A person named Lakshman has given a tractor for land preparation works and the lease was paid accordingly. Although a new machine, it was inactive from time to time while using. The tractor has been kept by the Company for the recovery of the money to be received.

A person named S.A. Weerasekera has provided a tractor for land preparation and the lease was paid accordingly. Although a new machine, it was inactive from time to time while using. The tractor has been kept by the Company for the recovery of the money to be received.

- (d) Although the area under sugarcane cultivation in extent of the Company was 6208 hectares by the year 2018/2019, sugarcane had been cultivated only in 5999 hectares. The average sugar yield per hectare in the financial year 2018/2019 is 53 metric tons and the average sugarcane yield had which lost was 11,077 metric tons on 209 hectares of sugarcane where the sugarcane was not cultivated and 738.6
- The area under sugarcane cultivation was 6,208 hectares during 2018/2019 and although the Management has tried to cultivate this whole area on several occasions, we have been unable to cultivate 208 hectares due to the continuous objections of the farmers and the case filed by them not to cultivate sugarcane. Because of these court cases, we are barred from entering these lands for the cultivation of sugarcane. As a result, the Company has lost sugar, ethanol,
- It should be confirmed by court whether the 209 hectares of uncultivated land belonging to the Company.

metric tons of sugar, 151,580 litres of ethanol and about 220.5 metric tons of compost had lost by that.

(ENA) , compost in the quantity specified by not cultivating the land.

- (e) The energy required to factory is produced by the use of BAGAS which is removed from production process and when that is not enough, the machines are operated using national electricity. The Factory power generation, which was 3,020 megawatt hours by the 2014/2015 accounting year, had dropped to 1,774 megawatt hours by the 2018/2019 accounting year. Although the decline in the annual quantity of crushing sugarcane and the inefficiency of the factory, the Management had failed to take necessary actions with respect to the relevant circumstances. As a result, the Company had to incur an additional costs for alternative energy.

Power generation in the factory depends mainly on the amount of grinded sugarcane. The Electricity generation has declined in the year 2018/19 compared to 2014/15. As previously mentioned, due to sugar cane varieties, sugarcane cultivation and the quantity of crushing sugarcane has dropped as a result of unexpected weather conditions caused the drop in sugarcane supply to decline. The factory is more than 60 years old and frequently undergoes frequent breakdowns. However, we are working to uplift the power generation.

Actions should be taken to reduce the cost of alternative energy by increasing the annual cane crushing capacity.

3.2 Other Audit Observations

Audit Observation	Comments of the Management	Recommendation
<p>(a) The amount of loan obtained by the Company by the financial year 2014/2015 was Rs. 2177 million and the interest paid on the loan was Rs. 529 million and the amount of loans obtained as at the end of the financial year 2018/2019 had increased up to Rs. 7400 million by 239 per cent and the paid interest up to Rs. 1803 million by 240 per cent. Due to the continued borrowings in order to maintain the operational activities of the Company and meet working capital requirements, the financial condition of the Company had deteriorated. Similarly, the Company has been running at a loss since 2006/2007 accounting year and the loss of Rs. 219 million in the year 2006/2007 had increased up to Rs. 1814 million by the accounting year 2006/2007 .</p>	<p>Although the Galoya Plantations (Pvt.) Company was established in the year 2007 Commercial activities were commenced in the year 2012. However, until the year 2017/2018, main source of revenue of the Company was sugar production, which is naturally undergone seasonal changes. Therefore, the Company had to borrow loans from financial institutions to obtain money to raise funds for working capital requirements (wages/crop maintenance/ factory maintenance / shipping supervision / statutory payments etc.) and capital expansion projects (such as Distilleries/ fly ash control system / bio compost production). The Company was able to generate additional business income from the year 2018/2019 with a new capacity expansion project such as a Distillery. We therefore expect that the operating profit of</p>	<p>As the Company's bad financial crisis worsens due to borrowing loans continuously, actions should be taken to prevent it.</p>

the Company will improve.

- (b) Even though the Bids were offered to selected buyers on 15 November 2018 for the purpose of removing the scraps of the Company, due to non-availability of relevant scraps within the stipulated time frame as per the conditions of the tender document, the bidding process had failed. Similarly, due to the submersion of mild steel, cast iron, copper, brass and stainless steel , assembled in the factory and susceptible to weeds for many years and risk of spread of dengue and the Public Health Inspector of the area had imposed fines against the removal of the iron from the factory premises and the Company had also lost some of its additional revenue due to non-sale of the items within the stipulated time.
- Although the Galoya Plantations (Pvt.) Company adheres to the tender procedures, because of the market price changes, the bidders refused to remove the scrap iron. Even though the bidders were periodically informed to remove scrap iron, a favorable response had not been received from them. Similarly, a fraudulent activity had occurred among bidders and the Company had suspended sales. The Management has again assessed the total amount of iron by an assessor and hope to sell in the short term . Approval should be obtained from the General Treasury, Board of Directors and the Line Ministry for the sale of this iron and as it takes a long period, this process can be delayed.
- As this iron is further decayed due to time passes, actions should be taken to obtain the relevant approvals and sell them promptly due to the decrease in obtaining revenue.