

1.1 Qualified Opinion

The audit of the financial statements of the B C C Lanka Limited for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Coconut BCC Lanka Limited as at 31 December 2020, 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 the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 Authority'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 Sub-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 Scope of Audit (Auditor's responsibility regarding the auditing 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 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 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 audit 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 audit report. However, future events or conditions may cause the Authority 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the reference to particular Standard	Comments of the Management	Recommendation
a) According to the Paragraph 51(LKAS 16) of the Sri Lanka Accounting Standard on Property, Plant and Equipment, the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change shall be accounted for in accordance with LKAS 08. The value of the fully depreciated motor vehicles and buildings Rs.22,018,179 and Rs.1,924,916 respectively are still in use and they have not yet been reviewed and accounted accordingly.	Even though arrangements were made for revaluation, it did not happen due to Covid 9 pandemic. Arrangements will be made for revaluation at the end of the financial year 2020/2021	The useful life of assets should be reviewed as per the provisions of Accounting Standard and adjustments made in accounts accordingly.
b) Disclosure of deferred tax in the note for the financial statement has not been made in the financial statements as per paragraph 80 and 81 of the Sri Lanka Accounting Standard (LKAS 12) on the income tax.	Disclosure will be made in financial statements of the year of account 2021.	A disclosure on the deferred tax should be made in financial statements.

1.5.2 Non-Availability of Written Evidence for the Audit

Subject	Amount	Audit Evidence not made available	Comments of the Management	Recommendation
	Rs.			
Turn over tax, Security levy, Goods and Services, Ratios and Taxes and Value Added Tax	57,648,266	Due to non-availability of sufficient and appropriate audit evidence, the accuracy of the payable tax amount of Rs. 57,648,266 Couldn't be verified at the audit.	This outstanding tax and rates remain payable prior to 2006. Consensus has been reached following discussions held with those institutions to pay those values from the compensations of the land transferred to the Ministry of Justice.	Sufficient audit evidence should be provided and action should be taken to pay them.

1.6 Accounts receivable and payable

1.6.1 Payables

Audit Observation	Comments of the Management	Recommendation
(A) According to the financial Statements of the Company, the amount payable to the Janatha Estates Development Board was Rs.4,508.696. However, according to the Financial Statements of the Janatha Estates Development Board, no such balance had been shown as receivable from such a Company. And also, there was no any other alternative evidence submitted for verifying the accuracy of this balance.	This was taken up for discussion at the Director Board meeting held on 23.09.2020 and the approval was granted for writing off this amount from the books and afterwards, as was discussed at the Audit and Management meeting held on 30.09.2020, as per Treasury Circular 01/2020 it was decided to write off such amount in the next Accounting year 2020/2021.	Action should be taken to settle the balances.
(B) The total amount of initial deposit Rs.1,949,142 received from nine persons had not been claimed as the tenants left. These deposits which are over fifteen years old have not been added to the income of the Institution.	Since no letter has been received in respect of Rs. 1,949,142 which remains as non-paid back amount after the end of the agreed period, any decision with regard to such deposit will be taken as per the Financial Regulation 570 and 571	If no claims are made, such amount should be added to the income.

2. Financial Review

2.1 Financial Results

The Operational result of the year under review recorded a profit of Rs.30,658,288 as compared with the corresponding profit Rs.18,484,388 of the preceding year. Accordingly, an improvement of Rs. 12,173,900 was observed in the Financial Result. The main reason for this improvement was the reduction of the selling cost by 13 per cent as compared with previous year.

2.3 Ratio Analysis

Ratio	2019/2020	2018/2019
Current Assets Ratio	1:2.6	1:2.2
Gross Profit Ratio	43%	1:2.2
Operational Profit Ratio	10%	6%
Net Profit Ratio	12%	7%

The increase of the short-term investment by Rs.29.8 million and the bank balance by Rs.16 million accounted for the increase of the Current Ratio by 0.4 per cent. Gross Profit Ratio stood at 43 per cent and decrease in sales costs accounted for the 7 per cent increase as compared with the preceding year. The increase of short-term investment income had accounted for the increase of the Gross Profit Ratio by 12 per cent.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

The loans obtained from the Coconut Development Board by the Company in 1985, 2002, and 2004 amounted to Rs.58,265,037 and the loan obtained in 2003 from the Kalubovitiyana Tea Factory was Rs.10,000,000. Interest to be paid thereon stood at Rs.94,788,727. However, this loan investment of Rs.163,053,764 and the loan interest remained unsettled till 31 March 2020.

Comments of the Management

The approval was given at the Director Board meeting held on 02 12 2020 to pay Rs.160,000.00 monthly from January 2021 in respect of the loan obtained from the Kalubovitiyana Tea Factory, Although discussions were held with the Management of the Kalubovitiyana to get the accrued interest reduced, it was not possible to reach any agreement. The Director Board decided to get this settled through the Public Enterprises Department.

Recommendation

The Company should strive to tackle the fiscal commitments.

3.2 Operational Inefficiencies

Audit Observation

The approval had been given through the Cabinet Paper No අමප/15/1874/702/010 dated 09. 12. 2015, Cabinet Paper No අමප/16/0597/731/009-1 dated 20.04.2016, Cabinet Paper No අමප/16/1277//724/052 Dated 21.07.2016 to provide 06 acres for the construction of the Colombo Adhikarana Piyasa, out of the 12 acres 3 roods 8.77 perches land belonging to the B.C.C Company, and 04 acres for the rehabilitation of the Remand Prison to facilitate the reestablishment of the Prison Headquarters and 02 acres 03 roods and 8.77 perches for the Urban Council for a commercial activity. Accordingly, although 06 acres had been handed over to the Divisional Secretary on 11 April 2019, transferring of lands and paying of compensations as per the land acquisition procedure had not been concluded even by this time. No reassessment had been done on this land which had been valued at Rs.8.195 million in 2013. Further, the actions had not been taken to get the uninitiated Cabinet Paper No අමප/16/1277/724/052 dated 21.07 2016 on the remaining lands cancelled.

Comments of the Management

06 acres out of 12 acres 02 roods 8.77 perches land belonging to the Company have already been transferred to the Ministry of Justice for the construction of *Adhikarana Piyasa*, and a draft following its preparation was handed over to the Ministry of Industries to submit a Cabinet Paper to get back to the Company the ownership of the remaining 06 acres 02 roods and 8.77 perches land and also thereby seek to cancel the previously submitted Cabinet Paper No අමප/16/1277/724/052 dated 12.07.2016. Thereafter it is expected to initiate a new Valuation on the remaining 06 acres 02 roods and 8.77 perches land.

Recommendation

Action should be taken to do a new valuation and to get the uninitiated Cabinet Paper cancelled.