Galoya Plantations (Pvt.) Limited – 2019/2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galoya Plantations (Pvt.) Limited ("The Company") 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 net assets 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 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 March 2020, 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 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.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance	Comments of the Management	Recommendation
Adequate disclosures regarding related parties were not made in financial statements in accordance with Sri Lanka Accounting Standards No.24.	Not commented.	Adequate disclosure of related parties in accordance with Standards 24 should be made in financial statements.

1.5.2 Accounting Policies

Non–compliance	Comments of the Management	Recommendation
Farmers loan of Rs.1,969,288 had been written off as doubtful debt in the year under review. However, the accounting policy on which it is based has not been disclosed	Management, judgment and debt recovery were determined based on old data and approval had been taken by presenting it to the Board of Director	Accounting policy on write off of doubtful debt should be disclosed in the financial statements.

1.5.3 The Going Concern of the Organization

Audit Observations	Comments of the Management	Recommendation
(a) Although the financial statements have been presented by assuming that the company has a going concern, the company continued to make losses and had a net loss of Rs.1,430,139,698 for the year	Although about Rs. 15 billion is needed to recover and start the sugarcane industry but led to higher interest rates for unsecured loans from financial institutions due to inability to invest from the Treasury and	Take necessary steps to reduce the cost of debt and make the company profitable in accordance with the terms of the shareholder's

	ended 31 March 2020 and the cumulative net loss for the day was Rs.8,677,402,641. The liabilities of the company at that day exceeded the total assets by Rs.7,521,543,411. Also, when the share capital of the company was Rs.1,011,764,730, the total loan amount was Rs.8,272,917,286 including the loans of Rs.6,092,272,225 obtained from shareholder companies and other companies associated with those companies, although the capital debt gearing ratio was 818 percent despite a bank balance of Rs.50,633,696 as at 31 March 2020, the bank overdraft on that day was Rs.62,844,095. It is observed that due to this the going concern of the company has been abolished and a risk has been created and The General Treasury which oversees the process on behalf of the government, which owns 51 percent shares in the company, had not reviewed the situation and made the necessary remedial recommendations.	inability to obtain new capital to the institution, non-granting of loans by government banks on non-presentation of guarantee securities. Debt capital had to be moved because sugar production was the only source of income from the year 2012 to 2018, when sugar milling started and the selling price was much lower than the cost of production. Due to insufficient income, it was not possible to repay the loan on time and incur additional interest cost. At the Extraordinary Meeting held with the owners at the end of each year, a forecast report on debt repayment and earnings was tabled and approval was obtained.	agreement.
(b)	In accordance with the Article 18.2.1(10) of shareholders' agreement signed by the Company with the General Treasury in the year 2009 and Article of 19.1.1(a) of the Management Agreement signed with Galoya Holdings Private Limited in 2010, has been stated that the government has the power to terminate the share agreement if the company does not make a profit after annual tax so that the General Treasury	There was no legal background to pay dividends to the Treasury as per the provision of the Management Agreement as the Company Act required compliance with the Solvency Test. However, the management managed to reduce the operating loss from Rs.364 million in the financial year 2015/2016 to Rs.21 million in the financial year 2018/2019, to an operating profit of Rs.626 million in the financial year	Those terms should not be violated as they have agreed to make a profit after the annual tax so that the Treasury can pay the dividend in accordance with the shareholders' agreement and the management agreement.

	can pay a dividend equal to the minimum treasury bill interest rate that exists at the beginning of the year. This Company running at a loss since its incorporation in 2010 and the cumulative loss at the end of the year under review was Rs.8,677,402,641 as mentioned in the paragraph (a) above. Accordingly, no dividend had been paid to the Treasury until the year 2020. It is observed that the breach of the share agreement and the management agreement has created a risk of termination of the company’s going concern.	2019/2020 and operating profit was able to reach Rs.2.4 billion in the financial year 2020/2021 (11 months), a growth of 283 percent. This was due to the ban on the import of ethanol and the offering of good price for local brown sugar. Accordingly, as the ethanol production reaches the expected capacity level of the company’s estate, increase the production level and the introduction of a new project for power generation is designed to generate the expected profit and positive cash flow and the directors are of the opinion that the company can continue to operate.	
(c)	Although the company continued to make losses, it borrowed from two stockholder private companies and their affiliates at high interest rates of up to 24 percent and paid substantial interest annually and amounting Rs.1,673.6 million or 32 percent of the total expenditure of Rs.5,220 million for the year under review was the interest cost for the affiliated companies.	In a situation where no public or private banks or financial institutions provide loans, the affiliated company has no other option but to borrow. It was continuously approved by the Directors representing all stakeholders.	Extraordinary interest expense should be minimized as the company’s loss making status has affected its going concern by borrowing at high rates.

1.5.4 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Lack of Evidence for Audit	Comments of the Management	Recommendation
(a) Stock	782,388,545	Failure to perform a physical verification	No physical verification has been made in the Covid – 19 epidemics since February and March 2020.	Physical verification at the end of the financial year should be done and the value and existence of the stocks and assets included in the financial statements should be verified.
(b) Non-Current Assets Cost	3,580,142,292			
(c) Capital Work in Progress	3,138,361			

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 220 of the Companies Act No. 07 of 2007	Although it is the responsibility of the Board of Directors to convene a general meeting of shareholders within 60 days when the net assets of the company less than half of its stated capital, to state the nature and extent of the losses, the causes thereof and the steps to be taken to prevent them, but the company's management had not acted accordingly, even though net assets of the company had fallen to a negative value of Rs. 7,521,543,411.	Comments have not been given.	Must comply with the provisions of the Companies Act.

(b) Section 2.1 of the shareholders' agreement	Although the business activities must be profitable and consistent with the company's business strategies and budgets, the company has been running at a loss since the year of its incorporation.	For the 11 months ended 28 February of the financial year 2020/2021, the company earned a net profit of Rs.487 million.	It should act in accordance with shareholders' agreement.

2. Financial Review

2.1 Financial Results

(a) The operating result for the year under review was a loss of Rs.1,430,139,698 and the corresponding loss for the previous year was Rs.1,814,145,920. It was observed that a decrease in loss of Rs.384,006,222 compared to the previous year and mainly due to an increase in total income of the company by Rs.1,733,932,232 and decrease in total expenditure by Rs.1,349,926,012.

(b) The administrative expenses of the company had increased by Rs.11,892,862 or 2 percent in the year under review compared to the previous year, while the financial expenditure had increased by 16 percent from Rs.1,803,529,762 in the previous year to Rs.2,093,733,282. As a result, the company's gross profit increased from Rs. 554,642,407 in the previous year to Rs.1,233,289,274 in the year under review by Rs.678,646,867 or 122 percent and there was a net loss of Rs.1,430,139,698 in the year under review.

(c) The company had been running at a loss since the financial year 2006/2007 and had a loss of Rs.219 million in the year 2006/2007, it had grown rapidly up to Rs.1,430 million by 553 percent although 13 years have passed, by the year 2019/2020. Financial crisis that the company is in has also caused problems for the company's going concern. The General Treasury, which oversees the work on behalf of the government, which owns 51 percent stake in the company had not reviewed the situation and made the necessary remedial recommendations.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observations	Comments of the Management	Recommendation
(a)	Although the total area under sugarcane cultivation in the company in year 2019/2020 was 4,852 hectares, total area under cultivation was 4,656 hectares. Accordingly, the sugarcane yield lost during the year under review was 10,584 metric tons in respect of 196 hectares uncultivated sugarcane. (Hectares: 196* Average sugarcane yield per hectare 54)	Although the area allotted for Hingurana Sugar Industry as per the Gazette Notifications of 1975 and 1989 is 7,506 hectares, the area initially identified by the Company is approximately 5,200 hectares and the government had not transferred any ownership or responsibility to that area for us. However, the number of farmers has increased by cultivating the lands. It is a problematic factor to cultivate and harvest sugarcane in the absence of legal ownership of lands.	Attention should be paid to the utilization of the total cultivable area.
(b)	When considering the 03 years period from the year 2017/2018 to year 2019/2020, the average annual sugarcane yield per hectare has generally decreased as 65, 53 and 54 metric tons respectively and by the year 2019/2020, it had dropped by 11 metric tons compared to the year 2017/2018. However, the company failed to develop this position.	The supply of sugarcane to the factory is done by the cultivation division and the outer sugarcane famer division and some reduction in the yield from 2014/2015 to 2019/2020 has been due to the reduction in the yield per hectare which occurs in the outdoor sugarcane sector. This is directly affected by the prevailing whether conditions in the relevant years, conditions of various diseases and pests, variations in the water level of two major streams for cultivation, the Senanayake Ocean and the Galoya reservoir.	Factors affecting to the decline in annual sugarcane production should be identified and necessary remedies should be applied.
(c)	Although the number of sugarcane grinding in the factory has increased by 49 percent from 152,017 metric tons which was in 2018/2019 to 226,598 metric tons by the year 2019/2020, it has failed to achieve the expected 262,384 metric tons sugarcane expected by the action plan. Also, the factory had acquired a maximum of 246,349 metric tons mills of sugarcane	The highest sugarcane supply was recorded in 2014/2015 but in subsequent years it was not possible to reach that record yield due to whether, disease and pest conditions and fluctuations in water levels in the streams. Although 2019/2020 was a year that can deliver a record harvests, the closure of the country in the latter	Efforts should be made to achieve maximum capacity under proper planning.

	in the year 2014/2015 and had not been able to reach that level for 06 years by 2019/2020.	part of the year due to the Covid – 19 situations, made the supply of sugarcane and grinding of sugarcane was inactive. But it was able to achieve a yield of 226,598 tons, minimizing its impact.	
(d)	The energy required for the factory is generated with the help of Baggas discarded during sugar production and when it is not enough it is connected to the National Power System and operates the machineries. Internal power generation, which was 2,800 megawatts hours in 2015/2016, had dropped to 766 megawatts hours continuously by 73 percent by the year 2019/2020. To prevent this decline, a project to increase the capacity of the company’s existing power generation from 2 megawatt to 10 megawatt was scheduled to begin in 2018 and be completed by mid-2020, but the project was not implemented until the end of the year under review.	It is true that the project to increase the capacity from 2 megawatts to 10 megawatts could have reduced the use of national power to the factory. This is mainly due to delays in obtaining approval for this. The construction work of this power project has commenced and machinery production has also commenced and the increase in the use of national power is due to the malfunction of the very old generator in our factory.	Necessary steps should be taken to maximize internal power generation.
(e)	Although the company’s by-products for the year 2019/2020 were estimated to be 500 metric tons of compost, but the actual production was about 1000 metric tons or 20 percent. Although the compost yard, built at a cost of Rs.2,625,200 in the year 2017/2018, was expected to produce 7000 metric tons of compost annually and sell it to both public and private buyers, after 3 years the company was unable to reach the desired level of compost production due to insufficient attracting buyers and failed to make full use of compost yard.	Production in the testing level, lack of good demand for compost and marketing problems were the reasons for not making full use of the compost yard. These types of products requires some time as it is difficult to promote and market in a very short period of time. Due to the production of compost manure to improve the soil quality in an environmentally friendly manner (Zero Waste Concept) using all the wastes, this organic manure has created a favorable soil condition in the sugarcane fields and an increase in yield has been observed which is generating a high demand for compost among the sugarcane farmers. Further, the expected production capacity of 7000 tons can be reached once there is a good demand.	Feasibility needs to be identified and estimates made to move towards the goal.

3.2 Controversial Transactions

	Audit Observations	Comments of the Management	Recommendation
(a)	Although Galoya Holdings Private Limited, which was set up to manage the company, is entitled to a management fee of only 2 percent of the Galoya Plantations Company's profit after tax, the statement of the financial position stated that Galoya had a non-refundable balance of Rs.15,873,623 due over many years and the financial statements did not adequately disclose how the balance was formed. The company had also made a provision for doubtful debt of Rs.12,392,179 for this purpose.	Although 2 percent of the company's profits should be paid to Galoya Holdings Limited as management fees, no management fee has been paid due to non-profit so far. The Rs.15.8 million mentioned here is the cost incurred at the inception of the business for a various working capital.	Adequate disclosure should be made in the financial statements regarding this balance and action should be taken to recover that amount.
(b)	It is controversial that Rs.47,214,354 has been written off from the loan of Rs.82,642,083 which was receivable from the farmers on the balance sheet day and out of the remaining amount, Rs.22,953,208 was due by March 2021.	With the approval of the Board of Directors, Rs. 47,214,354 has been written off from the loan of Rs.82,642,083 due from farmers over 4 years and out of remaining Rs.35,427,728, Rs.12,474,521 (35%) has been charged so far. The remaining of Rs.22,953,207 is expected to be recovered during this short grind season and the next long grind season.	The company must recover the total amount of debt owed and disclose the indebtedness and the reason for the write-off.
(c)	Out of the total loan amount of Rs.8,272,917,286 as on 31 March 2020, Rs.6,092,272,225 or 73.6 percent were loans borrowed for working capital purposes at an annual interest rates ranging from 15 percent and 24 percent of the company's stockholders and their affiliates. Accordingly, interest was paid to shareholding companies and their affiliates was Rs.1,673,581,209 or 79.9 percent out of the total loan interest expenditure of Rs.2.093,733,282 in the year under review. Also, the loan amount of Rs.746,679,237 to be paid to the	Due to the working capital and capital requirements required to carry out the operations of the institution, reluctance to give public and private bank loans without any required collateral, failure of the Treasury to grant guarantee certificates despite several requests, there was no alternative but to rely on unsecured loans provided by financial institutions. Loan facility obtained from LOLC Factors Institution in the year 2015 due to non-payment of Rs.747 million capital loans and	Actions should be taken to minimize interest expenses on loans.

affiliated companies of those companies by 01 April 2019 and the interest amount of Rs.768,609,290 which had to be paid for that was added together at an interest rate of 20 percent, converted into a refinanced loan of Rs.1,515,288,527. Due to the company has obtained loans from 02 public and private banks at 6 percent of interest rates in the years 2016/2017 and 2018/2019, it is observed that at a time when there is a very low interest rate in the money market, the company facing a serious financial crisis due to borrowing from shareholders and related companies at such high interest rates, converting the interest payable into loans and not performing the Treasury about the financial requirements and it was observed that the Treasury had not paid attention to these controversial transactions.	Rs.758 million interests thereon and after discussion with that firm the facility was revised again to Rs.1.8 billion with the approval of the Board of Directors.

3.3 Resources Released to Other Organizations

Audit Observations	Comments of the Management	Recommendation
According to the information provided by the institute, it was observed that there are unauthorized occupants in 113 official quarters which can be provided for the employees of the institute. But the company had not taken steps to acquire those quarters.	Although it has been more than 13 years decided to lease 277 hectares pots of land and the buildings and houses including in the movable and unmovable property to us under a 51 percent shareholding on a long term lease basis of 30 years, I would like to inform that our institute has no legal basis to acquire official quarters as the government has failed to grant that long term lease agreement.	As the District Secretary is a member of the Board of the Directors, action should be taken to obtain these hoses with the assistance of the District Secretary.

3.4 Human Resources Management

Audit Observations	Comments of the Management	Recommendation
According to the paragraph 9.3.1 of Public Enterprises Circular No.12 of June 02, 2003, a staff recruitment procedure had to be prepared for each institution, but no approved recruitment procedure had been prepared for the company.	Under the Management Agreement entered into under the stakeholder Agreement between the Government and the Private Sector, a Management Company named Galoya Holdings (Pvt.) Ltd. Has been established to manage the Company in accordance with the Manpower Plan prepared under the Business Plan prepared prior to the commencement of the business as well as the would like to inform that all recruitments have been made subject to an approved manpower plan and recruitment procedure.	An approved recruitment procedure should be prepared in accordance with the circular instructions.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observations	Comments of the Management	Recommendation
Although the draft annual report together with the financial statements should be prepared and submitted to the Auditor General within 60 days form the close of the year of accounts in terms of Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, but the Company had submitted its financial statements on 24 November 2020 after a delay of 06 months, but had not submitted its draft annual report.	Due to the COVID – 19 epidemic situations, the financial statements could not be submitted to the Auditor General in a timely manner along with the draft annual report due to the obstruction of the operations of the institution. We will submitted this financial report and draft annual report for the financial year 2020/2021 on due dates.	According to the circular instructions, the financial statements should be submitted to the Auditor General along with the Drafted Annual Report within 60 days from the end of the financial year.

4.2 Tabling Annual Reports in Parliament

Audit Observations	Comments of the Management	Recommendation
No action had been taken to table in Parliament the Annual Report for the period of from the financial year 2015/2016 to the financial year 2018/2019 in terms of Section 17 of the National Audit Act No.19 of 2018 and Public Enterprises Circular No.01/2016 of 01 January 2016.	Annual Reports have been submitted to the Line Ministry for the periods requested for each year and we are not responsible for the tabling in Parliament.	Action should be taken to table the Annual Reports in Parliament within the stipulated time as per the regulations.

4.3 Internal Audit

Audit Observations	Comments of the Management	Recommendation
Pursuant to the Section 40 of the National Audit Act No.19 of 2018, the Company should have its own internal auditor duly appointed by the Board of Directors of the Company to carry out its audits but the internal audit staff of Lanka Orix Leasing Company shall conduct internal audits without holding the post of Internal Auditor.	Not commented	In accordance with the act, should be create an internal audit position responsible for the Board of Directors of the Company and appoint a staff.

4.4 Audit and Management Committee

Audit Observations	Comments of the Management	Recommendation
Although it is observed that the Audit and Management Committee Meetings of the company were held, the Auditor General's Representative was not presented at those Committee Meetings as per the Public Enterprises Circular No.55 of dated 14 December 2010 until the first quarter of the year 2021.	Not commented.	Representative of the Auditor General should be present at the meetings as per the Circular.