

Kalubowitiyana Tea Factory Limited - 2022/2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Kalubowitiyana Tea Factory Limited (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 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 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, 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 Opinion

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 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Although the Head Office was moved to another private building in Battaramulla, the deposit of Rs.1,440,000 paid in getting the private building in Pelawatte where the Head Office was on a monthly rental basis during the period 2013 - 2020 had not been recovered by the end of the year under review.	The Company has filed a case against the building owner in the Kaduwela District Court.	The respective deposit should be recovered.
(b) Advance balances of Rs.536,185 given to green leaf suppliers of Hiniduma Hills Factory for more than 04 years had not been settled even by the end of the year under review.	Since an amount of Rs.373,597 from the balance receivable to the institution from the advance given to Hiniduma Hills green leaf suppliers has entitled to three transport agents, arrangements were made to file a case against them along with Non-conciliation Certificate for them as per Conciliation Board Act. The balance is being paid to factories in green leaf and cash.	Measures should be taken to recover the respective advances promptly or to get green leaf from tea suppliers for that.
(c) A loan of Rs.10,000,000 was given in the year 2003, to a state company on the basis of recovery in 12 installments at an interest rate of 22 per cent and although the principal amount will be repaid	BCC has been informed by letter dated 21 June 2023 that the interest amount to be paid in acceptable installments before 20 September 2023 and in case of failure to do so, the amount of Rs.10 million given	Actions should be taken promptly to recover the interest amount as per the agreement.

on 22 June 2022, the interest of Rs.51,574,327 receivable at the end of the year under review had not been recovered even by 31 March 2023.

to our Company on 23 June 2022 will be calculated as the same percentage of the loan amount and the interest amount value on that day and a part of the interest amount will be recovered.

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
Paragraph 3 of Public Enterprises Circular No. 01/2021 dated 16 November 2021	Necessary approvals had not been obtained preparing an Operational Manual on the operational process and controls including human resource management of the Company.	A Draft Operational Manual has been prepared and submitted for the approval of the Board of Directors in May 2023 on the operational process and control including Human Resource Management and the Board of Directors has given approval for that. This Manual has been submitted for approval by the Department of Public Enterprises on 30 August 2023 .	Approval of Operational Manual and carrying out the administrative activities thereon should be expedited.

2. Financial Review

2.1 Financial Results

The net profit after tax for the year under review was Rs.220,800,775 and the net loss after tax as against to that for the preceding year was Rs.7,298,752. Accordingly, an improvement of Rs.228,099,527 was observed in the financial result. The increase in made tea sales by Rs.1,594,280,430 as compared to the preceding year and increase in refuse tea sales revenue by Rs.15,312,553 had mainly attributed for this improvement.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The sales revenue of the Company has increased by 153 per cent as compared to the preceding year and it is observed that the increase in the sales revenue of Kalubowitiyana Tea Factory by Rs.1,306,037,232 had mainly attributed to this. Likewise, as a result of increase in fixed deposit interest income as compared to preceding year, the financial income has increased by 132 per cent in the year under review. It is observed in cost component analysis that other major expenses including cost of sales had increased compared to the preceding year.

2.3 Ratio Analysis

The current and quick asset ratios were 4 : 1 and 2 : 1 respectively in the year under review and the ratios had been 2:1 and 1:1 in the preceding year. As the total of stock, short-term investments and cash and cash equivalents was Rs. 603,889,226 in the years 2022/2023, that is, these ratios had taken higher value than the optimal level due to high working capital situation.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A number of 15 unauthorized residents have settled in between 1989 and 1996 on the land in extent 4.075 hectare where the Kalubowitiyana tea factory is located and assessed and accounted for Rs.23,000,000 and, the Company had failed to resolve this issue even by the end of the year under review.	A request has been submitted to the Pitabeddara Divisional Secretariat through the Ministry of Plantation Industries to give directions for surveying the entire land where the Kalubowitiyana Tea Factory is located.	The ownership of the land should be cleared through legal proceedings after checking the legal ownership.
(b) The Hiniduma Hills and Menikdiwela Tea Factories established under the Tea Shakthi Fund were handed over to Kalubowitiyana Tea Factory Limited for operations in the years 2012 and 2015 respectively and the Company had provided a loan amount of Rs.50 million to Tea Shakthi Fund on 09 April 2015. Although the approval had been received to legally take over the ownership of Hiniduma and	The approval for the acquisition of the land where the Menikdiwela factory is located has been received to take over without amendment of the purpose and the activities of handing over to the Company on lease basis through the Yatinuwara Divisional Secretariat are currently being carried out. The obtaining of the assessment for the year 2019 is done by the Land Reforms Commission to hand over the land belonging to Hiniduma Factory to	Necessary steps should be taken immediately to take over the ownership of the tea factories in accordance with the decision of the Cabinet of Ministers.

Menikdiwela Tea Factories for this amount and the related interest in accordance with the Decision of the Cabinet of Ministers No. CP/19/0743/117/024 dated 19 March 2019, the legal ownership of those factories had not been taken over by the end of the year under review.

- (c) Even though an amount of Rs.1,950,000 has been estimated to be renovated the factory officer's quarters of the Kalubowitiyana tea factory, which was accounted for in the financial statements at a value of Rs.1,400,000, in between 15 June and 15 July 2022, its works had not been commenced even by the date of audit 25 July 2023 and it was observed that the Company will have to bear more costs if this quarters, which has been unusable, is not repaired immediately.
- The functions of the procurement have been commenced during the financial year 2023/24 and the bids submitted by the bidders are being evaluated by the Technical Evaluation Committee and actions will be taken
- Measures should be taken to protect assets by carrying out maintenance and repairs from time to time.
- (d) Although the Company had awarded the bid to a private supplier on 23 June 2021 to a Rs.534,200 and spent Rs. 336,236 by 31 March 2023 for related civil functions to establish a water treatment system at the Kalubowitiyana Tea Factory, the supplier had not commenced the installation of this system even by 25 July 2023 .
- The Bidder has informed that it is not possible to complete the work under the bid rates because of the prices of building materials have been increasing rapidly. The advances given has been recovered back to our Company on 24 August 2023 and it has been expected to re-bid and the procurement works related to water treatment will be completed in the 03rd quarter of the financial year 2023/24.
- The water treatment system should be established promptly.

3.2 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
<p>The grants of Rs. 18,204,900 had been given to the Company on 15 September 2021 as government grants to adapt factories to new technology. Out of the procurement activities that were approved under this, the works on the Project of installing and automating machines with new technology had been completed to make the green leaf milling process efficient in Derangala and Hiniduma Factories and the cost spent for that was Rs.10,348,000. The other works such as introduction of computerized technology for CTC Cutters Sharpening and purchase and installation of 02 CTC Tea Grading Machines had not been commenced even by 31 March 2023 and it was observed that the grants amounted to Rs.7,856,900 had remained.</p>	<p>Even though quotations were submitted by two suppliers for the introduction of computer technology for CTC Cutter Sharpening, as the bid value was much higher than the estimated amount, although a request for price revision has been made from suppliers, since there was no agreement for that, the Procurement Committee has approved to increase the estimated amount and re-bid for the year 2022/2023. Although the quotations were called for the purchase of two CTC Tea Grading Machines, as none of the suppliers were provided quotations, arrangements will be made to call for quotations by rearranging the bid documents to be able to attract the supplier.</p>	<p>The Project for adaptation of tea factories to new technology should be completed promptly.</p>