

Tea Research Board 2011

1. Financial Statements

1:1 Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Tea Research Board as at 31 December 2011 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

- (a) Contingent liabilities which could be occurred from the court cases filed against the Board had not been disclosed in the financial statements in terms of SLAS 12.
- (b) Fully depreciated assets which are being used at present had not been revalued in terms of Sri Lanka Accounting Standard No.18.
According to the Chairman's comments, action had been taken to revalue these items with the assistance from Valuation Department.

1:2:2 Accounting Deficiencies

Following observations are made.

- (a) Payments amounting to Rs.2,381,613 made in 2003 to obtain ISO certificate had been shown under land and buildings in the financial statements without being shown separately as a non current asset.
- (b) Action had not been taken to transfer the goods in transit valued at Rs.34,518 relating to the year 2009 to the relevant accounts.
- (c) Value of a vehicle received from Ministry of Finance and Planning had not been ascertained and taken into accounts.

- (d) Minor repairs to the buildings at St. Coombs factory totalling Rs.111,039 had been shown under work in progress without being charged against the profit.
- (e) Factory development expenses relating to St. Coombs Estate amounting to Rs.5,494,090 had been shown as work in progress in the accounts although it had already been completed as at 31 December 2011.
- (f) Different rates for depreciation had been applied for the same category of fixed assets such as computers, electrical equipment and furniture.

1:2:3 Unreconciled Balances

Following unreconciled balances were observed in audit.

- (a) Following fixed assets balances could not be reconciled with the fixed asset schedules furnished by the Board as those assets were not been classified in the ledger.

Description -----	Amount ----- Rs.
Fixed assets TRI T'Kele	89,702,632
Fixed assets TRI Rathnapura	11,621,908
Fixed assets TRI Hanthana	12,064,360
Fixed assets TRI Kottawa	3,003,998
Fixed assets TRI Passara	2,084,061
Fixed assets TRI Deniyaya	2,813,438
Fixed assets TRI Deniyaya	1,224,761
Fixed assets TRI Mathugama	294,624
Fixed assets St Coombs Estate	17,321,421
Fixed assets St Jochem Estate	17,095,102

	157,226,305
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- (e) Differences amounting to Rs. 1,993,319 were observed in debtors schedule of St. Coombs Factory accounts as compared with creditors in the financial statements of Sri Lanka Tea Board and Tea Small Holdings Development Authority as at the end of the year under review for purchasing tea .

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) The analytical charges receivable as at the end of the year under review were Rs.152,920 and out of that, balances amounting to Rs..121,070 were outstanding for more than five years.
- (b) According to the age analysis, trade and sundry debtors amounting to Rs. .307,751 had remained outstanding for more than 4 years without being recovered.
- (c) Checkroll debts such as loans, advances etc. at St. Joachim Estate amounting to Rs. 22,175 had not been recovered for more than five years.

1:2: 5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following Laws, Rules, Regulations etc., observed in audit are given below.

Reference to Laws, Rules, Regulations
and Management Decisions

Non-compliance

(a) Employees' Provident Fund Act
No.15 of 1958
and Employees' Trust Fund Act
No.46 of 1980

EPF contributions on fixed allowances had not been deducted from the employees and the EPF and ETF contributions of the employer on those allowances had not been remitted for the year under review and previous years.

(b)Public Enterprises Circular
No PED/12 of 02 June 2003
Paragraph 6:5:1

The draft Annual Report for 2011 had not been furnished to the Auditor General within 60 days after the closure of the financial year.

(c)Treasury Circular

(i) No.842 of 12 December 1978

Fixed assets register had not been updated properly and the lands belonging to the Board had not been included in the fixed assets register.

2. **Financial Review**

2:1 **Financial Results**

According to the financial statements presented, the operating activities of the Board for the year under review had resulted in a net deficit of Rs. 26.8 million as against the net surplus of Rs.2.9 million for the preceding year, thus indicating a deterioration of Rs.29.7 million in the financial results due to the loss of St. Coombs and St. Joachim Estates amounting to 30.5 million.

2:2 **Operating Results of the Estates**

The Board had managed two estates namely St Coombs Estate and St. Joachim Estate and the operating results of these Estates for the year under review as compared with the preceding year is given below.

	St. Coombs Estate (Including Lamilier Section)		St. Joachim Estate	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Tea Sales</u>				
Quantity (Kilograms)	344,131	246,924	396,287	496,847
Sales Value (Rs.'000)	141,490	98,695	144,697	187,875
Other Income (Rs.'000)	1,643	6,055	8,005	4,753
Total Income (Rs.'000)	143,133	104,750	152,702	192,628
<u>Less:</u>				
Total Expenditure (Rs.'000)	140,942	99,509	168,726	191,494
Operating Profit /(Loss) (Rs.'000)	2,189	5,241	(16,024)	1,134
Prior year adjustments (Rs.'000)	(15,112)	(741)	(1526)	(553)
Net Profit/(Loss) (Rs.'000)	(12,923)	4,500	(17,550)	581
	=====	=====	=====	=====
Cost of Production per Kilogram of Tea (Rs)	413.43	371.92	394.24	365.11
Yield per Hectare (Kilograms)	2,444	2,011	1,002	1,016
Net Sales Average (Rs.. per Kilogram)	405.78	394.85	359.31	372.72

Following observations are made in this connection.

- Although the sales quantity of the St.Combes Estate had increased by 97,207 kilograms in the year under review as compared with the preceding year, the operating profit had decreased by Rs.3,051,424. This was mainly due to the increase of the bought leaf expenses. However the net profit had decreased by Rs.17,423,767 as compared with previous year due to the adjustments of under provision for gratuity in preceding years.

- b) The sales quantity of St.Jochims Estate had decreased by 100,560 kilograms when compared with the previous year and the profit had converted into a net loss of Rs.17,550,180 as against the net profit of Rs.580,933 for the previous year. It was observed in audit that although the St.Jochim Estate had entered the Memorandum Of Understanding (MOU) with Ruwanpura Gamidiriya Ekabadda Samagama (GAMIDIRIYA) to get more production and make a profitable factory, a net loss of Rs. 17,550,000 had occurred during the year under review.

3. Performance review

3:1 Functions of the Board

- (a) The major functions of the Tea Research Board are to conduct, assist and encourage scientific and technical researches and investigations relating to the problems and matters connected with the cultivation and production of tea, diversification of production from tea as well as the dissemination and publication of results of research works at the directions of the Board including the prevention and control of pests that damage tea cultivation and the improvement of the quality of tea.

According to the information made available the financial performance of the Board as at the end of the year under review is given below.

Program me	Allocation for the year			Utilization			Utilization as a percentage
	Recurrent Rs. Mn	Capital Rs. Mn	Total Rs. Mn	Recurrent Rs. Mn	Capital Rs. Mn	Total Rs. Mn	
Crop Improvement	13.65	13.89	27.54	13.42	7.54	20.96	76.10
Land Productivity Improvement	13.82	16.07	29.89	14.50	10.15	24.65	82.46
Crop Management Post – Harvest	29.61	12.64	42.25	26.38	5.88	23.26	76.35
Technology	14.17	14.11	28.28	15.03	11.07	26.10	92.29
Resources Planning	5.40	1.25	6.65	3.11	0.54	3.65	54.88
Services to Stake holders	38.25	38.54	76.79	38.13	12.24	50.37	65.59
Research Management	113.63	27.56	141.19	113.76	15.80	129.56	91.76
Internal Services and Maintenance	50.74	31.30	82.04	51.69	9.15	60.84	74.15
Total	279.27	155.36	434.63	276.02	72.37	348.39	91.15

- (b) Activities of the factories were not included in the Action Plan. Therefore the progress of the activities of the factories and the estates of the Board could not be ascertained in audit.

3:2 Management inefficiencies

Following observations are made.

- (a) According to the information made available, a sum of Rs.27,090,600 had been receivable from 10 officers who had obtained study leave with full pay and failed to serve the compulsory periods of service, had not been recovered from the relevant parties even up to 31 March 2012.
- (b) A sum of Rs. 4,142,173 had been shown in the accounts under work in progress as Lowery Tea Processing Project since 1982. According to the information made available, six machines had been installed in six factories in the up country to test the suitability of Sri Lanka Tea processing and resulted those machineries were unsuitable for the tea production process in Sri Lanka and therefore the project was abandoned.
- However it was observed in audit that those machines were still idling at the factories where installed and shown in the accounts as work in progress for a long period.
- (c) Out of the total land to the extent of 143.810 hectares at St.Joachim Estate 17.675 hectares had been encroached by external parties over a long period and constructed permanent houses and cultivated paddy, tea, rubber, coconut and other crops. Therefore the Estate is losing income from those cultivation and no action had been taken against those people to vacate those lands up to 31 March 2012.
- (d) Certain external parties not relevant to the Board and St. Coombs Estate were cultivating vegetables in large extent and were earning large income without obtaining proper approvals from the Board and the Ministry of Plantation Industries. The details of unauthorized land utilizations had not been made available to audit although called for.

- (e) A sum of Rs.125,000 had been paid by the Board as legal fees for a case filed by a Montessori school teacher against the Board and the Montessori Parent's Association was housed at the Board's premises. It was observed in audit that this is not relevant to the Board as the management of the Montessori is empowered to the executive committee of the Montessori school.
- (f) A court case had been filed by the National Estate Services Association at Rathnapura against the Board in 2008 regarding the promotion of two employees who were working at St. Joachim Estate. It was observed in audit that the Board had proceeded the case without coming to a settlement and an a sum of Rs. 901,500 had been paid to the private lawyers up to the end of the year under review. However the case had not been finalized even up to 31 March 2012.

3:3 Human Resource Management

Following observations are made.

(a) Cadre Position

According to the letter dated 24 August 2011 of the Department of Management Services, the approved new cadre of the Board was 443 and the cadre position of the Board as at 31 December 2011 as per the reports submitted by the Board is given below. However no action had been taken by the Board to fill the vacancies.

Grade	Approved Cadre	Actual Cadre	Vacancies
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Executive Grades	87	39	48
Non Executive Grades	206	121	85
Miner Grades	<u>150</u>	<u>80</u>	<u>70</u>
Total	443	240	203
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According to the chairman's reply the Ministry of Plantation Industries gave approval to fill only the most essential posts until the Scheme of Recruitment was approved in September 2011. The Institute is now in the process of recruiting personnel following the approval of new Scheme of Recruitment.

(b) Cost of Personnel

According to the information made available the cost of personnel for the year under review as compared with the previous year excluding factory workers, is given below.

Staff Category	No of Employees		Total Emoluments		Cost per Employee	
	2011	2010	2011	2010	2011	2010
			Rs.	Rs.	Rs.	Rs.
Executives	51	48	25,622,590	24,989,897	516,598	527,662
Non Executives	145	138	51,148,457	49,360,723	375,473	380,282
Minor Employees	75	47	17,368,699	15,216,663	232,250	327,002
	271	233	94,139,746	89,567,283	371,604	415,720

(c) Recruitments

Following observations are made relating to the appointment of Deputy Director (Administration) made on 01 February 2011.

- (i) The officer who recruited as per the paper advertisement on 14 November 2010 had not possessed required qualifications and experience.
- (ii) According to the interview mark sheets, it was observed in audit that high marks had been given to the said applicant by the Interview Board among other four applicants without giving acceptable reason.
- (iii) According to the information made available, sums of Rs.699,592 and Rs. 308,097 had been paid as salaries and indoor and out door labour charges respectively from February 2011 to January 2012 to the above said officer by the Board.

3:4 Utilization of Motor Vehicles

Following observations are made in connection with the vehicles fleet of the Board consisting of 50 vehicles, 09 lorries, 13 tractors and 42 motor bicycles .

- (a) Eleven motor vehicles were idling without repairing for a long period.
- (b) Two motor bicycles were not included in the verification reports as compared with the schedules.
- (c) A sum of Rs. 1,650,000 had been paid to a private garage to re fix a new body and an engine to a vehicle of the Board during the year under review. However it was observed in audit, the Board approval for the repair and prior approval from the Commissioner of the Motor Traffic for the replacement had not been obtained. The repairs made were not in a satisfactory condition as this vehicle had been sent again to repair before lapse of 06 months.
- (d) Eight vehicles had met with accidents during the year under review. A sum of Rs.142,715 had been paid for repairs for five vehicles and out of that Rs.99,028 only had been received as insurance compensation . The Board had not recovered the insurance claims for the repairs totaling Rs. 162,075 for the other three vehicles even up to 31 March 2012.

3:5 Investment of Gratuity Provision

Gratuity provision amounting to Rs.140,157,472 had not been invested separately by the Board to face future liability as prescribed in payment of Gratuity Act No.12 of 1983.

4. Accountability and Good Governance

Corporate Plan

4:1 The Corporate plan had not been reviewed annually as per the Public Enterprises Circular No. PED/12 of 02 June 2003. Therefore, the action plan prepared for the year under review along with actual progress could not be compared with the corporate plan for 2008 -2012.

4. 2 Internal Audit

The internal audit unit should be independent from the Director of the Board. As per the organization chart of the Board, the Internal Auditor is working under the Director of the Board and not under the Chairman and the Board of Directors of the Board.

4:3 Budgetary Control

Significant variations were observed in audit between the budget and the actual thus indicating that the budget had not been made use as an effective instrument of management control.

5. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board by my detailed report issued in terms of section 13 (7)(a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Granting of scholarships
- (c) Settlement of Advances
- (d) Assets management
- (e) Receivables and payables
- (f) Financial management
- (g) Budget
- (h) Estates Management