

## Tea Research Board - 2010

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### 1. Financial Statements

#### 1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Tea Research Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Tea Research Board as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### 1.2 Comments on Financial Statements

##### 1: 2:1 Sri Lanka Accounting Standards (SLAS)

- (a) Fully depreciated assets which are being used at present had not been revalued in terms of SLAS -18.
- (b) 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 SLAS12 .

##### 1:2:2 Accounting Deficiencies

Following observations are made.

- (a) Action had not been taken to transfer the goods in transit valued at Rs.2,903,347 relating to the year 2009 to the relevant accounts which were received subsequently.

- (b) Grant and Reserves for the assets donated by Plantation Development Project had been overstated by Rs. 465,211 due to a calculation error .

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) The analytical charges receivable as at the end of the year under review amounting to Rs.57,945 had remained more than two years without being recovered.
- (b) According to the age analysis, trade and sundry debtors amounting to Rs. 322,267 remained unrecovered for more than 3 years.
- (c) Advances amounting to Rs.304,161 given to 30 external Institutions for procurement of goods and services had remained for over five years without being recovered.
- (d) According to the Financial Statements, balance amounts under on going Projects totalling Rs.256,561 had been remained without being utilized for more than 05 years.

1:2:4 Unreconciled Balances

Following unreconciled balances were observed in audit.

- (a) A difference of Rs. 99,303,166 had been observed between the balance as per ledgers and balance as per related schedules submitted along with financial statements.
- (b) Differences amounting to Rs. 680,669 and Rs. 148,911 were observed between the debtors schedule of the Board (St.Coomb's Factory accounts) and financial statements of Sri Lanka Tea Board and Tea Small Holdings Development Authority as at 31 December 2010.
- (c) Fixed assets valued at Rs. 823,889,400 could not be able to reconcile or verify with the Board of Survey Reports for 2010 to confirm the existences of the assets.

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
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(a) Payment of Gratuity Act No 12 of 1983.	Out of the total provision amounting to Rs.110,941,480 made for gratuity, only a sum of Rs.36,833,349 or 33.2% had been invested up to 31 May 2011. Hence the Board had not invested adequate funds for face future liability.
(b) Public Enterprises Circular No PED/12 of 02 June 2003 (i) Paragraph 6:5:1	Draft Annual Report had not been furnished to the Auditor General along with the Financial Statements.
(c) Treasury Circular No IAI /2002/02 of 28 November 2002	A fixed assets register for the computers and computer accessories and software had not been maintained in accordance with the Circular instructions.

## 2. Financial and Operating 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 surplus of Rs. 2.93 million as against the net deficit of Rs.15.74 million for the preceding year, thus indicating an improvement of Rs.18.67 million in the financial results.

The increase of ccess income by Rs.15.73 million and an increase of the profit of St. Joachim's Estate had mainly attributed for the improvement of the financial results.

### 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 & Lamilier Estates		St. Joachim Estate	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b><u>Tea Sales</u></b>				
Quantity (Kilograms)	246,924	297,575	496,847	245,201
Sales Value (Rs.'000)	98,695	105,785	187,875	93,883
Other Income (Rs.'000)	6,055	636	4,753	2,153
Total Income (Rs.'000)	104,750	106,421	192,628	96,036
<u>Less:</u>				
Total Expenditure (Rs.'000)	99,509	98,201	191,494	102,279
Profit /(Loss) (Rs.'000)	5,241	8,220	1,134	(6,243)
Cost of Production per Kilogram of Tea (Rs)	371.92	331.07	365.11	387.25
Yield per Hectare (Kilograms)	2,011	2,105	1,016	888
Net Sales Average (Rs.per Kilogram)	394.85	351.03	372.72	380.79

The sales quantity of the St.Coombes Estate had decreased by 50,651 kilograms in the year under review as compared with the preceding year and the profit of the year under review had also decreased by Rs.2,978,706 as compared with the preceding year. The sales quantity of St.Jochims Estate had increased by 251,648 kilograms as compared with the previous year and the profit also had increased by Rs.7,377,202 as compared with the preceding year.

### 2.3 Performance Review

An Action Plan for the year under review had been prepared with the financial targets only without mentioning the physical targets. Therefore, the physical performance of the Board could not be satisfactory compared with the targeted performance. However, according to the information made available, the financial performance of the Board is given below.

Programme	Allocation for the year			Actual Expenditure			Progress as a Percentage
	Recurrent Rs. M	Capital Rs. M	Total Rs. M	Recurrent Rs. M	Capital Rs. M	Total Rs. M	
i. Crop Improvement	12.69	6.35	19.04	12.33	4.18	16.51	86.71
ii. Land Productivity Improvement	8.70	6.72	15.42	10.09	6.52	16.61	107.71
iii. Crop Management	23.81	7.32	31.13	23.50	4.95	28.45	91.39
iv. Post – Harvest Technology	11.66	2.93	14.59	12.61	2.89	15.50	106.23
v. Resources Planning	2.77	0.73	3.50	2.11	0.17	2.28	65.14
vi. Services to Stake holders	34.23	19.34	53.57	33.57	8.73	42.30	78.83
vii. Research Management	110.37	17.69	28.06	109.20	5.88	115.08	89.86
viii. Internal Services and Maintenance	<u>51.39</u>	<u>8.92</u>	<u>60.31</u>	<u>51.80</u>	<u>8.27</u>	<u>60.07</u>	99.60
<b>Total</b>	<b><u>255.62</u></b>	<b><u>70.0</u></b>	<b><u>325.62</u></b>	<b><u>255.20</u></b>	<b><u>41.60</u></b>	<b><u>296.80</u></b>	<b><u>91.15</u></b>

#### 2:4 Operating Inefficiencies

Following observations are made.

- (a) According to the information made available to audit, it was observed that a sum of Rs.27,152,046 were receivable from 10 officers who had obtained study leave with full pay and failed to serve the compulsory periods of service. This amount had not been recovered from the relevant parties up to 31 May 2011.
- (b) The Board had signed a Memorandum Of Understanding (MOU) with Ruwanpura Gamidiriya Ekabadda Samagama (Gamidiriya) on 02 February 2010 to supply green leaf to St Joachim Tea Factory.

Following observations are made in this regard.

- (i) As per the agreement, the Gamidiriya had agreed to supply 1,635,000 kilograms of green leaves from February to December 2010. However it was observed that the Gamidiriya had supplied only 1,077,058 kilograms (65.87%) of green leaves during the said period.
- (ii) At an audit test check, it was observed that the Gamidiriya had not supplied the green leaves with agreed quality as per Para C(2) of the MOU
- (iii) Although the Gamidiriya had supplied less quantity and low quality of green leaves, a sum of Rs. 1,008,000 had been paid by St. Joachim Estate as management fee and 33 per cent of the profit amounting to Rs. 1,168,079 without considering the requirements of the MOU.

According to the Chairman's comments, the Estate was not in the position to exactly follow the conditions in the MOU it would be difficult to retain M/S Gamidiriya which could be effected the intake of green leaf quantity.

- (c) Contractual activities aggregating Rs.7,089,920 shown in the work in progress account since 2007 had not been completed up to the end of the year under review. However, the amount paid for these incompleting activities had been written off from the profit of the year under review without getting the approval of the Board of Directors and parties concerned.

## 2:5 Assets Management

Following observations are made.

- (a) 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 Board of Survey Reports dated 23 July 1997, six machines had been imported by the Board and installed in six factories in up country. According to the information made available, these machines were brought to test the suitability of Sri Lanka Tea Processing and resulted that Lowery Tea Processing (LTP) machineries were not suitable for the tea production process in Sri Lanka and therefore the project was abandoned. However it was observed in audit that those machines were idling up to the date of this report and action had not been taken to remove those machines from the factories where they were installed.
- (b) According to the land survey plan prepared by the Sri Lanka Survey Department in 2005 for St. Joachim Estate, 17.675 hectares out of the total land extent of 143.810 hectares had been encroached by external parties over a long period and constructed permanent houses and cultivated on the encroached land. Legal action had not been taken against those people to vacate those lands and it was observed in audit that due to these encroachments the Estate is losing income from cultivation of paddy, tea, rubber, coconut and other crops.

- (c) At an audit inspection it was observed that about two hectares of land belonging to St. Joachim Estate had not been utilized for any purpose. According to the Chairman's comments, the soil of the said land was not suitable for tea cultivation and the Estate has already earmarked for planting rubber at the 3<sup>rd</sup> quarter of 2011 and in the year 2012.
- (d) It was observed that the external parties who were not allowed by the Tea Research Board or St. Coombs Estate had cultivated vegetables in large extent of land and 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.

## 2:6 Human Resource Management

The cadre position of the Board excluding St. Joachim and St. Coombs Estates was 321 and out of that 103 posts were vacant as at 31 December 2010. It was observed in audit that 20 vacancies out of 103 were Research, Research Development and Experimental officers. Information regarding casual labourers deployed for factory works were not made available for audit.

## 3. Systems and Controls

Observations made in systems and controls during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Settlement of Advances
- (b) Receivables and payables
- (c) Cash control
- (d) Assets management
- (e) Physical Performance