Janatha Estate Development Board - 2013

The audit of financial statements of the Janatha Estate Development Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory Information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of State Agricultural Corporation Act No.11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1:2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1:4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, comprehensive income statement and statement of changes in equity and cash flow statement.

2. Financial Statements

2:1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements

2:2 Comments on Financial Statements

2.2.1 Going Concern of the Institute.

Out of the 17 estates owned by the Board, 16 estates had continuously sustained losses and as such net assets amounting to Rs.252,874,365 as at 31 December 2012 had decreased up to a minus value of Rs.298,188,624 by 31 December 2013.The decrease of these net assets had been a huge percentage of 218 per cent as compared with the preceding year. In addition, it is clear that this condition will further aggravate if the matters contained in paragraphs 2.2.7 and 3.3 (a) of the report are considered. Accordingly, it was observed that the going concern of the Board was uncertain without Government or other financial assistance.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

(a) Assets, which should be identified as investment assets as per the Sri Lanka Accounting Standard 40, had been brought to accounts under lands and buildings without being so identified.

(b) First Time Adoption as per the Sri Lanka Financial Reporting Standard No.01 (SLRFS 01) complying with the new Sri Lanka Financial Reporting Standards (SLRFS) and Sri Lanka Accounting Standards (LKAS) to be implemented since the year 2012 had not been carried out in the Financial Statements, for the year 2013.

2.2.3 Accounting Deficiencies

The following observations are made

(a) Expenses incurred by the Joint venture with Nagasthenna Estate and a private company during the year 2008 and the expenses incurred in respect of tea brokers totalling Rs.2,176,683 had been brought to accounts as a receivable amount under current assets.

(b) Employees Provident Fund surcharge payable amounting to Rs. 50,735,840 identified by the estate sector had been debited to the Estate Control Account without being brought to accounts as expenses.

(c) The Gratuity surcharge of Rs.14,775,049 computed in relation to Galaha, Bopitiya, Kandaloya and Hope estates had been considered as a production cost of the respective estates.

(d) The balance of the Sundry Receivable amounting to Rs. 3,202,747 had included in the balance of the non-reconciled Salaries Control Account of Rs. 2,496,613

(e) The rental amounting to Rs.2,931,188 receivable from November 2010 in respect of a rented building had not been brought to accounts.

2.2.4 Unreconciled Control Accounts and Suspense Accounts

(a) In comparing the Gratuity Surcharge shown in the accounts of 04 Estates with the schedule, a difference of Rs.5,541,963 was observed and a difference of Rs.776,042 was also observed between the Employees Provident Surcharge Ledger Account and the Final Account.

(b) Even though the rent receivable from the private institute, to which Monthe Crestho Estate had been given on lease basis amounted to Rs. 5,101,794, it was Rs.784,800 as per the accounts. However, action had not been taken to identify and settle the said difference.

(c) Unidentified debit and credit balances pertaining to the Head office and each estate had been Rs. 11,194,109 and 5,082,066 respectively. Although these balances had been brought forward as the balances of the Suspense Account for a long period, action had not been taken to rectify these balances, having being identified them.

2.2.5 Lack of Evidence for Audit

The following items of accounts in the financial statements could not be satisfactorily vouched in audit due to the unavailability of evidence indicated against each item.

Item	Value Rs.	Evidence not made available
(a) Noncurrent Assets	2,100,288,935	(i) Schedules (ii) Register of Fixed Assets (iii) Reports of the Board of Surveys (iv) Title certificates
(b) Provision for depreciation	400,575,027	Schedules of computing
(c) Closing stock	95,736,379	Stock verification reports
(d) Trade receivable	154,302,296	(i) Schedules (ii) Confirmation of balances
(e) Sundry debtors	131,908,927	(i) Schedules (ii) Confirmation of balances
(f) Deposits	1,088,935	Deposit certificates
(g) Plantation Development Project	4,136,732	Reports on the details of expenses sent for the reimbursement.
(h) Rent Receivable	5,935,240	Schedules
(i) Debtors for green tea leaves	20,538,071	(i) Schedules (ii) Age analysis
(j) Employees Provident Fund/Employees Trust Fund/ Ceylon Planters' Provident Association/ Estates Employees Provident Association	719,149,421	(i) Schedules (ii) List of the balances of owners
(k) Provision for gratuity	1,067,123,203	Schedules

2:2:6 Accounts Receivable and Payable

The following matters were observed.

(a) A sum of Rs.706,134 shown as the sundry receipts is an accumulation of 20 accounts balances and those balances had been brought forward since a period of five years without being adjusted.

(b) The building rent and security charges amounting to Rs. 1,225,841 and Rs.305,321 respectively receivable in favour of the Janatha Estate Ministry had been accounted as debtors. At present, that Ministry had been included under the portfolio of the Ministry of Public Resources and Entrepreneur Development and action had not been taken to confirm these balances as receivables.

(c) The rental recoverable from a private institute, to which buildings of the Board had been given on rent amounted to Rs. 20,432,822 as at 31 December 2013. Action had not been taken either to recover this amount or take legal action.

(d) The balances of 7 accounts existed in the name of Sri Lanka State Plantation Corporation totalled Rs. 12,812,143. Nevertheless action had not been taken to settle those balances.

(e) Action had not been taken to recover a sum of Rs.39 million and Rs.645,835 due from a private company and a private institute respectively up to 6 June 2014.

2.2.7 Weaknesses in the Financial Management

It was observed that due to the issues such as failure to prepare proper plans and control expenses, non-adoption of a proper methods for the recovery of income and failure to focus attention on the optimal financial sources, the Board had to face acute financial difficulties and it was further ensured as per the following issues.

(a) Failure to make payments with a statutory obligation as prescribed.

	Rs.
Payments to be made under Employees Provident Fund Act No. 15 of 1958	333,672,565
Payments to be made under Employees Trust Fund Act No. 46 of 1980	31,488,978
Payments to be made under Payment of Gratuity Act No. 12 of 1983	412,806,300
Payments to be made under Value Added Tax Act No. 14 of 2002	29,661,379
Payments to be made under Economic Service Charges Act No. 13 of 2006	7,752,214
Payments to be made under Nation Building Tax Act No.09 of 2009	4,396,757
Total	819,778,193

(b) Since payment had not been duly made and optimal financial sources had not been selected the Board had to incur following additional expenses.

Rs.

Interest for the advances obtained from the brokers	35,220,694
Interest for bank overdrafts	11,431,313
Fines for the delayed payments	
Contribution for the Employees Trust Fund	7,446,774
Contribution for the Employees Provident Fund	66,108,312
Contribution for the Estate Employees Provident Fund	175,264
Contribution for the Ceylon Planters' Provident Fund	148,131
Employees Gratuity	74,121,115
Electricity bills	332,040
Assessment Tax (rates)	854,308
Total	195,837,951

(c) In the receipt of money for the provision of contractual services to other institutions, the balance of the Withholding Tax deducted by those institutions amounted to Rs.9,841,143. Nevertheless, action had not been taken to recover or to set off that balance from the Department of Inland Revenue.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed during the course of audit.

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(a)	Financial Regulation 272 (3)	Even though every payment voucher should be forwarded to audit after the elapse of 06 weeks from the date of payments, action had not been taken accordingly.
(b)	Financial Regulation 395	Even though the reconciliation statements relating to bank current accounts should be prepared prior to 15th of the following month and made available for audit, action had not been taken accordingly.
(c)	Financial Regulations 756 and 757	Even though human and physical resources available as at 31 December in each year should be verified and reports thereon should be furnished to the Auditor General, it had not been so done.
(d)	Financial Regulation 1646	Originals of the Daily Running Charts of

		each motor vehicle should be furnished to the Auditor General, whereas the Running Charts of the vehicles attached to the Head office and the estates had not been furnished.
(e)	Public Administration Circular No. 41/90 dated 14 December 1990	Even though a fuel test should be carried out once in a six months, fuel test of all the vehicles belonging to the Board had not been carried out.
(f)	Public Enterprises Circular No.55 dated 14 December 2010	Only two Audit and Management Committee meetings had been held and their decisions had also not been implemented.

3. Financial Review.

3.1 Financial Results.

According to the financial statements presented, the operations of the Board for the year ended 31 December 2013 had resulted in a deficit of Rs.500,500,277 as compared with the corresponding deficit of Rs.199,543,724 for the preceding year, thus indicating an increase of Rs.300,956,553 in the deficit for the year under review as compared with the preceding year. Making of provisions for Employees Provident Funds and Gratuity surcharge of Rs.139,453,385 which had not been adjusted in previous years, making of provisions amounting to Rs. 72,631,318 for the gratuity payable, identification and accounting of provisions for gratuity of Rs.182,463,654 during the year under review and increase in the loss sustained by the estate sector by 05 per cent had attributed to this increase in the loss.

3.2 Analytical Financial Review.

Financial Position	2013	2012
Current Ratio	1:2.9	1:2.4
Quick Assets Ratio	1:3.4	1:2.8

It was observed as per the current assets ratio and the Liquid assets ratio that the Board was not at an optimum financial position.

3.3 Legal action instituted against or by the Board

The following observations are made

(a) The number of cases filed against the Board for its failure to make contributions duly to the Employees Trust Fund and the Employees Provident Fund by the Labour Commissioner's Office was 364 and as such the amount payable as at 31 December 2013 was Rs.322,905,437.

(b) External parties had field 47 cases against the Board.

(c) A sum of Rs. 1,532,149 had been paid as the Lawyer's fees during the year under review.

4. Operating Review

4.1 Performance

It was observed that the prime cost of production incurred by the Board for the production of one Kilogram of tea could not be covered by the sales income of one Kilogram of tea. Accordingly, in comparing the cost of production (COP) with the Net Sales Average (NSA) contribution per unit, the loss of the unit contribution of one Kilogram tea of 12 estates ranged from Rs.20 to Rs.426.

4:2 Management Inefficiencies

The following observations are made

(a) It was observed that in the maintenance of vehicles and factories action had not been taken to document maintenance records and as such there is a possibility of occurring errors and frauds as a result of making payments repeatedly for the same matter.

(b) Electricity had been supplied to quarters from the factories without meters and as such the domestic electricity consumption of the quarters could not be ascertained.

(c) The selection of lessors relating to the leasing of property situated at No.320, Darly Road had not taken place on a competitive basis and the respective property had not been valued by the Government valuers. Further, the lease agreement No.122 pertaining to the lease of the property had not been registered with the Land Registry.

(d) Without a project evaluation, feasibility study and an approval of the Board of Directors a bottled drinking water project had been initiated in Hope estate at a cost of Rs.2,593,180 and subsequently it had been abandoned.

(e) Instead of maintaining Mulhalkele estate at an inoperative condition under the circumstance where monthly expenses of the estate had to be incurred in future, action had not been taken to reorganize the estate under an investment of the institute or develop it so as to gain a benefit to the institute under the mediation of the private sector.

4.3 Operating Inefficiencies.

The following observations are made.

(a) Increase in the prices of tea sold to the Army that represented 90 to 95 per cent of the sale of the "Jana tea " of Janawasana being baseless, placing orders had been stopped since July 2013 and as such institute had suffered an estimated loss of Rs.40,320,000 annually.

(b) In the sale of green tea leaves to the private sector, the percentage of deducting liquid weight, tare weight and drained weight had differed on various occasions.

(c) Without open competitive basis for the selection of buyers and without an agreement, 2,075,500 Kg. and 2,840,401 Kg. of tea had been sold in the years 2012 and 2013 respectively to the private sector.

(d) In the production of tea, 70 per cent of the total production should comprise the main production categories. Nevertheless, due to deficiencies found at the factory of the Hope Estate and the substandard quality of the green tea leaves, the contribution of the main production categories had declined to 50 per cent of the total production.

4.4 Idle and Underutilized Assets

The nursery comprising 53,113 tea saplings initiated in the year 2009 and 2010 at Rockwood Estate had been maintained at the nursery level without being planted in the field even by the month of June 2013. Plantation of saplings in the field when the nursery elapsed its nine months from its initiation is economically effective, whereas this nursery had been maintained at the nursery level for a period of 5 and 4 years respectively.

4.5 Identified Losses

The following observations are made

(a) Kandaloya tea factory had been closed down over a period of 10 years, whereas a sum of Rs. 7,742,280 had been paid to three employees of the factory during the period of 2003-2013 as ralaries and allowances without obtaining an effective service.

(b) Since a portion of inoperative Mulhalkele Estate situated at a distance of 45 Km. from the Rahathungoda Estate had been managed as a part of the Rahathungoda Estate, a sum of Rs.13,404,947 had been paid as employees' salaries from January 2010 to May 2013 without gaining any income by the Janatha Estate Development Board.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Public Enterprises Circular No. 12 dated 02 June 2003, the annual accounts should be furnished to the Auditor General within 60 days after close of the accounting year, whereas the Board had presented its accounts for the year2013 on 01 July 2014. Accounts had thus been presented with delays since the year 2005.

5.2 Corporate Plan

Even though Corporate Plan up to 2011-2013 had been prepared, the Board of Directors met on 07 October had decided to suspend the implementation of this plan, taking into consideration the adverse financial position of the Board.

5.3 Action Plan.

Action Plan in terms of the Treasury Circular No.12 dated 02 June 2003 had not been prepared for the year under review.

5.4 Internal Audit

Even though an Internal Audit Unit was in operation, internal audit plans and internal audit reports had not been furnished.

5.5 Observations on Unresolved Audit Paragraphs

The following observations are made

(a) Action had not been taken to recover the rental amounting to Rs.8,215,722 recoverable for the land and the building rented out to a private institute.

(b) Gratuity expenditure amounting to Rs.1,033,553 of the Hope Estate pertaining to the year 2012 had been entered in the Current Account of the Head office without being posted to the Expenditure Account. Action had not been taken to rectify this error in the account of 2013 and to settle the balances of the Adjustment Account of Rs.2,261,885 in the accounts of 2013.

(c) Rockwood Estate

(i) Thirty five accounts comprising debit balances of Rs.10,304,340 and 27 accounts comprising credit balances to the value of Rs.1,628,097 remained dormant in the General Ledger of the estate and these balances had been brought forward since a couple of years. Action had not been taken to make necessary adjustments to these accounts in the year 2013.

(ii) According to the balance sheet as at 31 December 2012, the balance of the Adjustment Account amounted to Rs. 8,811,646. Evidence was not available to confirm that which accounts had been debited and which accounts had been credited to make up that balance. Further, the objective for taking those balances into one account and the particulars relating to the delegation of authority to do so had not been furnished to audit.

(d) Rahathungoda Estate.

(i) Necessary action had not been taken to recover a sum of Rs. 555,890 remained recoverable to the estate since year 2006 in respect of providing green tea leaves of the estate to the Rossling Hill Factory.

(ii) The balance of the Stock Purchasing Suspense Account as at 31 December 2012 amounted to Rs. 1,554,872. Action had not been taken to rectify the relevant accounts having identified those transactions.

(e) Kandaloya Estate.

(i) So far, no action had been taken to recover a sum of Rs.148,896 recoverable for the provision of green tea leaves to the Onugaloya Tea Factory in the year 2009.

(ii) The balance of the Stock Purchasing Suspense Account as at 31 December 2012 amounted to Rs. 2,735,704. Action had not been taken to make adjustments having identified those transactions.

6. 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 from time to time. Special attention should be paid to the following areas of control.

(a) Maintenance of Books and Records.
(b) Collection of Rental Income
(c) Accounting
(d) Debtors and Creditors
(e) Fixed Assets
(f) Income.