Sri Lanka State Plantations Corporation – 2013

The audit of the financial statements of Sri Lanka State Plantations Corporation for the year ended 31 December 2013 comprising the statement of financial position, the 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 the State Agricultural Corporations Act No.11 of 1972.

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 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 conducting the audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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, statement of income and the statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance 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 Sri Lanka Accounting Standards

The following observations are made.

(a) Even though the accounts should be kept on accrued basis in terms of Sri Lanka Accounting Standard 01, the lease rental income receivable amounting to Rs.8,197,245 for the year under review had not been accounted for, on cash basis, in contravention, and had not been accounted for.

(b) Five thousand six hundred and sixty kilogrammes of tea which had been destroyed by fire in the year under review at Galpihilla Estate and being unsuitable for consumption had not been valued and adjustments made in the accounts in terms of Sri Lanka Accounting Standard 02.

(c) An unidentifiable cash flow amounting to Rs.19,025,895 had been indicated while calculating the cash flow of the operating activities in terms of Sri Lanka Accounting Standard 07 and a sum of Rs.118,066,710 received from the Treasury had not been identified as receipt of cash. Accordingly, the balance of the cash flow statement had become questionable in audit.

(d) The net sales income had been accounted for, by deducting the expenditure on finished tea from the finished tea income contrary to Sri Lanka Accounting Standard 18.

(e) Even though the building situated at Dematagoda estimated at an annual lease rental of Rs.5,400,000 and 30.33 hectares of land relating to 03 estates had been provided to external parties on lease basis for a period of 30 years, those assets had not been identified as investment assets in terms of Sri Lanka Accounting Standard 40.

(f) Sri Lanka Accounting Standard 41

(i) The Consumable Biological Assets had not been valued for the year under review and the value of 3000 trees sold during the year under review and in three preceding years had not been adjusted by that Assets Account.

(ii) Even though provision for depreciation should be made after the maturity of the plantations while making provisions for depreciation for plantations such as Cocoa, Arecanut, Coffee, Rubber, Pepper etc, included in the Biological Assets, provision for depreciation had been made since the year of incurring expenditure relating to those plantations.

2.2.2 Accounting Policies

The following observations are made.

(a) Even though the effective life span of the twig tea included in the Institutional Biological Assets lies between 30 years to 40 years in terms of the Tea Plantation Norms, depreciation of those assets had been made on the basis of effective life span of the seed tea.

(b) Expenditure amounting to Rs.1,616,396 incurred on road maintenance activities of four estates had been indicated as deferred assets in the statement of financial position by capitalizing without stating under Property, Plant and Equipment. Even though provision for depreciation amounting to Rs.404,772 had been made for the year 2013 for this cost, the relevant depreciation policies had not been disclosed through notes of accounts.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The income and expenditure relating to the Ingiriya Estate belonging to the Sri Lanka State Plantations Corporation had not been brought to account in the financial statements of the Corporation and the balance of that bank account as at 31 December of the year under review had been a sum of Rs.347,523 according to the said bank statement.

(b) Expenditure amounting to Rs.580,352 relating to the renovation of the Burnside Bungalow and the Fundale Bungalow of the Kotaganga Estate had been included in the Debtors Account without identifying as revenue expenditure.

(c) Even though the functions relating to the renovation of the official quarters of the Estate Superintendent of the Walahandoowa Estate had been completed in the year 2012, the expenditure on renovations amounting to Rs.84,050 relating to it had been brought to account as work in progress of the year under review without identifying as expenditure of that year.

(d) Even though the final finished stock of the year 2012 amounted to Rs.11,157,033 while calculating the finished tea income of the Galpeella Estate, the profit of the year had increased by a sum of Rs.283,519 due to a sum of Rs.10,873,514 being brought to account as opening stock of the year under review.

(e) The Value Added Tax amounting to Rs.210,000 relating to the lease rental income had been brought to account as annual lease rental income.

(f) The Latex Sales Income amounted to Rs.14,987,749 according to the accounts of the year under review and it amounted to Rs.15,420,457 according to the buyers' reports. As such, an income of Rs.432,708 had been understated in the accounts..

(g) Even though the expenditure amounting to Rs.1,645,340 incurred on the Forest Management Report prepared for a period of 05 years by the Corporation in the year 2011 had been capitalized, it had not been written- off against the profit up to the end of the year under review .

2.2.4 Unreconciled Control Accounts

Adjustments for provision for depreciation of estates had been made in the accounts prepared at the head office. However, such adjustments for depreciation had not been made in the accounts relating to 8 estates. As a result, non- reconciliation amounting to Rs.287,932 was observed between the accounts of the Head Office and the estates as at the end of the year under review.

2.2.5 Suspense Accounts

Even though there were debit balances of Rs.5,361,010 and credit balances of Rs.487,032 in the Suspense Account as at the end of the year under review, action had not been taken to identify and settle those balances.

2.2.6 Lack of Evidence for Audit

The following items could not be satisfactorily accepted or vouched in audit due to non-availability of evidence indicated against them.

Item		Value	Evidence not made available
------		--------	-----------------------------
		Rs.	
(a)	The balance of the Miscellaneous Account and the balance of the Provision for Gratuity appearing in the opening balance sheet of the Midland Estate.	43,581,749	Relevant schedules
(b)	Vehicles (35)	Values could not be identified	Certificates of registration
(c)	287 Journal Entries	639,708,187	Approved journal vouchers
(d)	The annual renovation expenditure of the Galpihilla Bungalow	1,292,219	Paid vouchers
(e)	The value named “Tea grade valued” included in the accounts of the Kelabokka Estate	3,289,437	Registers to confirm values
(f)	Income from sale of tea leaves	48,633,846	Registers to confirm values.
(g)	Property, Plant and Equipment	748,517,385	Register of Fixed Assets
(h)	Trade and Accounts Receivable	64,568,273	Schedules, Debtors’ Age Analysis, Letters of confirmation of balances
(i)	Accounts Payable	1,148,536,917	Schedules, Creditors’ Age Analysis, Letters of confirmation of balances
(j)	Annual Lease Rental Income (of ten blocks of land)	19,633,359	Lease Agreements, Assessment reports of land

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to recover the balance of Rs.64,988,479 relating to 05 Debtors’ Accounts existing since 2011.

(b) The institutional statutory liabilities had not been properly settled. As a result, the total statutory liabilities payable as at 31 December 2013 amounted to Rs.689,039,227 made up of a sum of Rs.428,822,444 to the Employees' Provident Fund, a sum of Rs.39,204,220 to the Employees' Trust Fund, a sum of Rs.7,825,258 to the Estate Employees' Provident Fund, a sum of Rs.2,670,305 to the Lanka Planters' Provident Fund and the gratuities payable amounting to Rs.210,517,000.

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

The following instances of non- compliance were observed.

Reference to Laws, Rules and Regulations	Non- compliance
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka and Public Enterprises Circular No.118(a) of 23 May 1997	A sum of Rs.17,653 had been paid as holiday pay in 2012 contrary to the Establishments Code and the circular provisions.
(b) Financial Regulation 104 of the Democratic Socialist Republic of Sri Lanka	Even though it had been revealed by the report of the Government Analyst that the motor car attached to the Galpihilla Estate had been set on fire and destroyed by certain parties on 29 January of the year under review, action had not been taken in terms of the Financial Regulation in this connection.
(c) Public Administration Circular No.13/2008(iv) of 09 February 2011	Fuel totalling Rs.86,484 had been provided to two officers of the Corporation in the months of April, June and August of the year under review exceeding the limit of fuel expenses.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the year under review had been a deficit of Rs.217,784,413 as against the surplus of Rs.1,045,335,245 of the preceding year thus indicating a deterioration of Rs.1,263,119,658 in financial results of the year under review. The decrease in other operating income by Rs.488,622,586 and, the profit obtained during the preceding year on revaluation of Bio- Science Assets amounting to Rs.667,344,420 although there was no such occurrence during the year under review had mainly attributed to the above deterioration in financial results.

3.2 Analytical Financial Review

	2013	2012
Current Assets Ratio	0.14:1	0.23:1
Quick Assets Ratio	0.09:1	0.17:1
Gross Profit Ratio	(17%)	(5%)

The following observations are made.

(a) The Institution had been functioning with a negative working capital for a long time and the value amounted to Rs.1,017,180,009 in the year under review. Accordingly, the Corporation had to face short- term liquidity problems.

(b) The gross profitability of the Institution had deteriorated by 12 per cent as compared with the year 2012.

3.3 Income and Expenditure Analysis

The following observations are made.

(a) The finished tea income of the year under review had decreased by a sum of Rs.131,688,968 or 25 per cent as compared with the year 2012 due to stoppage of production activities in three factories.

(b) The under provision of gratuity amounting to Rs.47,125,546 had been adjusted in the expenditure of the year under review. This had mainly attributed to the increase in the administrative expenses by 73 per cent.

(c) The expenditure on interest had been deducted from the loans and accounted for, since the year 2010. This error had been rectified during the year under review. As a result, the expenditure on bank loan interest had increased by Rs.2,513,368, that is, 75 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The average tea harvest per hectare in Matale and Kandy during the year under review was about 1200kg, while the values relating to estates administered by the Corporation ranged between 310kg and 854kg.

(b) The finished tea production of the estates of Hunnasgiriya and Kelebokka had decreased by 29 per cent and 12 per cent respectively during the year under review as compared with the year 2012. However, the finished tea production of the year under review was 1,762,301 kilogrammes as compared with the overall finished tea production of 12 estates in 2012 and had decreased by 8 per cent, that is, 149,315 kilogrammes. The insufficiency in production was due to not adopting proper agricultural methods of tea cultivation.

(c) It was observed that all estates were at a low level than the estimated performance level during the year under review. The overall percentage of achieving the budgeted targets in 2011, 2012 and the years under review had been 70 per cent, 90 per cent and 77 per cent respectively.

(d) It was observed that all estates administered by the Corporation were operating with a negative contribution while comparing the production cost of a kilogramme of tea with the net sales value, during the year under review. The negative contribution per unit had increased during the year under review as compared with that of the year 2012. The production cost of a kilogramme of tea (COP) and the average sales value (NSA) during 2012 and 2013 were as follows.

	2012			2013		
Name of the Estate	**Cost of Production**	**Average Sales Value**	**Contribution**	**Cost of Production**	**Average Sales Value**	**Contribution**
	(Rs.)	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**
Opalgala	274.91	251.13	(23.78)	322.23	305.42	(17.65)
Alakolla	324.76	277.95	(46.81)	331.91	241.47	(90.44)
Hagalla	317.98	291.00	(26.98)	347.54	276.58	(70.96)
Galpihilla	298.72	291.18	(7.54)	358.69	268.08	(90.61)
Harepark	369.20	220.57	(148.63)	365.20	227.03	(138.17)
Gomara	341.17	291.53	(49.64)	416.22	295.63	(120.59)
Midland	371.45	295.95	(75.5)	417.52	299.91	(117.61)
Hunnasgiriya	343.26	275.06	(68.2)	432.52	267.36	(165.16)
Rangala	362.05	294.77	(67.28)	441.52	284.97	(156.55)
Kellebokka	363.58	294.95	(68.63)	445.36	280.29	(165.07)
Kotaganga	468.28	244.37	(223.91)	527.43	247.99	(279.44)
Total			(806.90)			(1412.25)

(e) The net sales value of one kilogramme of tea of the estates of the Corporation ranged from Rs.227 to Rs.305 and the average price level was Rs.458 to Rs.539 in the year under review in several factories belonging to the region of Matale and Kandy districts. As such, the auction price of tea of the estates of the Corporation was at a low level as compared with those of the private estates.

(f) The area of land utilized for tea production in the year 2009 had been 3513.91 hectares in extent and it had been 2894.46 hectares in extent in the year under review. According to the explanations of the management, of 619 hectares of land had been given to external parties for cultivation on contract basis.

4.2 Management Activities

The following observations are made.

(a) Even though lease agreements should be signed while leasing lands belonging to the Corporation, lease agreements had not been signed between both parties relating to 10 leased lands.

(b) There was no specific basis in selecting the institutions purchasing rubber latex for sale and written agreements had not been signed between the Corporation and the purchasing institution.

4.3 Operating Activities

The following observations are made.

(a) The cultivation of rubber and minor export crops had been initiated in the estates of Opalgala and Midland without a feasibility study from the year 2011 to the year under review and an expenditure amounting to Rs.17,820,710 had been incurred on it. These projects had become unsuccessful after the year under review and plants without quality being cultivated, inefficiency in maintenance and management and initiating without conducting a study on climate and weather conditions were the reasons in this connection. Further, even though expenditure amounting to Rs.1,155 and Rs.1,317 respectively had been incurred on the maintenance of a single plant of black pepper and cloves, cultivation had been abandoned without proper yield.

(b) A lease income amounting to Rs.4,950,000 had been earned on leasing the buildings in the year under review and action had not been taken to recover the value added tax concerned.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) The tea factory of the Hagala Estate remained inoperative since 2009 whilst a fully fledged factory in the Dankanda block belonging to the Midland Estate remained inoperative since 2008.

(b) The activities of the bakery which bakes various types of food and maintained by the Estates Co-operative Society of the Midland Estate had been stopped since the year 2011.

4.5 Uneconomic Transactions

Advances had been obtained by the Corporation from the Tea Brokerage Institutions at a high interest rate of 23 per cent exceeding the General Market Interest Rate and a sum of Rs.12,749,529 had been paid as interest during the year under review.

4.6 Transactions of Contentious Nature

The following observations are made.

(a) The sum of Rs.1,933,044 included in the Trade and other Accounts Payable as unidentified balance since 2011 could not be confirmed to whom it was payable.

(b) The tractor belonging to the Corporation could not be driven for about 03 months during the year under review as it was inoperative. Four hundred litres of diesel had been used during the period it was inoperative.

4.7 Personnel Administration

Even though the staff of the Corporation and the scheme of recruitment of the staff should be approved by the Department of Management Services, relevant steps had not been taken accordingly.

4.8 Identified Losses

The Corporation had to pay a surcharge of Rs.56,122 during the year under review as a result of not paying contributions to the Employees' Trust Fund and the Sri Lanka Planters' Provident Fund, as stipulated.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The annual accounts should be furnished to the Auditor General within 60 days of the end of the financial year in terms of the Public Enterprises Circular No.PED/12 of 02 June 2003. Nevertheless, the accounts of the Corporation for the year 2013 had been presented on 06 May 2015.

5.2 Audit Committees

Even though Audit Committee meetings should be held every 03 months in terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, only 02 committee meetings had been held for the year under review.

6. Systems and Controls

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
(a) Maintenance of documents	Delay in obtaining information to audit due to the misplacement of documents.
(b) Control over Fixed Assets	Non- maintenance of registers relating to fixed assets.
(c) Accounting	Not using journal vouchers, delay in accounting.
(d) Lease of properties	Leasing property without entering into written agreements.
(e) Pricing of finished tea and provision to the brokers	Obtaining loans at a high rate without written agreements with brokers and specifying a comparatively low price for tea leaves.