

Tea Small Holdings Development Authority - 2013

The audit of financial statements of the Tea Small Holdings Development Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and statement of cash flow 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 15 of the Tea Small Holdings Development Authority Act, No.35 of 1975. My comments and observations which I consider should be published with the Annual Report of the Authority 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. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

1.4 Basis for Disclaimer Opinion

As a result of the matters describe 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 financial performance, 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 Public Sector Accounting Standards (SLPSAS) - 03

The overstated value of the building at Nelligolla in the year 2005 amounting Rs.7,570,800 had been deducted from the non-current assets and the revaluation surplus for the year under review instead of being adjusted with retrospective effect. As a result the net value of the assets and retained earnings as at the end of the year under review had too been understated by Rs.908,496.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although according to the accounting policies of the Authority, the provision for bad debts should be provided at 30 per cent on the debtors outstanding for more than one to two years, it was revealed in audit that 10 per cent only had been provided as provision for bad debts.
- (b) Even though the entire Government grants amounting to Rs.573.4 million received during the years from 1998 to 2001 for the development of tea small holdings and to expand the tea factory network had been utilized for the intended purposes, a balance of Rs.93.61 million had been shown as Government grant as at the end of the year under review without being identified and made relevant adjustments in the accounts.
- (c) A sum of Rs.3,312,446 received from Divineguma Project during the year under review had been utilized for tea small holdings development activities by the Galle Regional Office. However, this transaction had not been brought to the financial statements.
- (d) Fully depreciated non-current assets except the motor vehicles costing Rs.3,304,704 which are being used at present had not been revalued and taken into accounts.

2.2.3 Unexplained Differences

The following observations are made.

- (a) Differences totalling Rs.99,378 were observed between three cash book balances and the balances shown in the relevant bank reconciliation statements. The reasons for the differences had not been explained to audit.

- (b) Action had not been taken to reconcile the following differences in respect of loan balances observed between the ledger accounts and related loan schedules. Details are shown below.

Types of Loan -----	Balance as per Ledger Account -----	Balance as per Schedules -----	Difference -----
	Rs.	Rs.	Rs.
Distress Loans	4,183,003	3,575,693	607,310
Debt Relief Loans	26,392	4,566	21,826
Housing Loans	21,255,746	20,637,326	618,420
Motor Cycle Loans	392,601	256,146	136,455
Bicycle Loans	13,873	-	13,873
Festival Advances	68,006	50,050	17,956
Special Advances	112,249	145,350	(33,101)
	-----	-----	-----
	26,051,870	24,669,131	1,382,739
	=====	=====	=====

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The debtors and creditors valued at Rs. 19,734,133 and Rs. 1,362,417 respectively as at the end of the year under review had not been recovered or settled by the Authority for over 05 years.
- (b) It was observed in audit that the staff loans totalling Rs.1,367,662 were inactive for over a long period of time as per the schedules submitted to audit as at the end of the year under review and prompt action had not been taken in this regard.

2.2.5 Lack of Evidence for Audit

The following documentary evidence indicated against each item shown below had not been furnished to audit.

Item of Account -----	Value -----	Evidence not made available -----
(a) Re-scheduled Vehicle Loans	Rs. 7,646,315	} Schedules and supporting Documents
(b) Motor Cycle Loans given to Tea Inspectors/Extension Officers	10,388,988	
(c) Flood Relief Loan	20,452	

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

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non Compliance
(a)(i) Section 14 of the Tea Small Holdings Development Authority Act, No. 35 of 1975	Action had not been taken to amend the Act with regard to the activities set out in (b), (c) and (d) which were not caring out by the Authority.
(ii) Section-2(b) ii and iv of the Tea Small Holdings Development Authority Amended Act, No. 34 of 2003	Three Board members had not been appointed to the Board of Directors which should be comprised of 13 members.
(b) <u>Public Administration Circulars</u> No.41/90 of 10 October 1990	Fuel consumption of motor vehicles had not been tested once in every 06 months.
(c) <u>Treasury Circulars</u> (i) No.IAI/2002/02 of 02 November 2002	The value of computer accessories and software had not been included in the assets register in terms of the Circular instructions.
(ii) Section 07 of the Public Enterprises Circular No.PED/50 of 28 June 2008	Maximum distance of 50 km up and down from the office had been exceeded by 2,058 km during the period from May to July 2013 in respect of group transportation provided by the Authority without being adhered with the Circular instructions.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating activities of the Authority for the year ended 31 December 2013 had resulted a net deficit of Rs.207.84 million as compared with the corresponding net deficit of Rs.160.11 million for the preceding year, thus indicating a further deterioration of Rs.47.37 million in the financial results. The reason for the increase of deficit was mainly due to increase of development expenditure by Rs.163.75 million.

4. Operating Review

4.1 Performance

4.1.1 Tea Small Holders Contribution to Tea Production

According to the information made available to audit, the total tea production in Sri Lanka during the year under review was 340.22 million kilograms and the tea small holders contribution thereto was 244.3 million kilograms or 71.8 per cent. The total tea production in Sri Lanka during the preceding year was 326.28 million kilograms and the tea small holders had contributed 233.10 million kilograms or 71.4 per cent therein. Thereby the contribution of the tea small holders had increased only by 0.4 per cent during the year under review.

4.1.2 Tea Plantation Developments Subsidies

According to the statement of financial performance presented, a sum of Rs. 440.06 million had been spent for development activities such as subsidies for tea re-planting and new planting, extension and social development and institutional strengthening during the year under review.

The plantation development cost and the cost of implementation per one rupee of the development cost for the year under review and for the preceding four years are given below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Development cost Rs. million	440.0	276.3	208.0	189.2	185.7
Implementation cost Rs. million	238.5	233.5	218.5	205.4	202.1
Implementation cost per Rs.1 of the Development cost Rs.	0.54	0.85	1.04	1.08	1.08

The following observations are made in this connection.

(a) Tea Replanting

According to the national requirement, 2,300 hectares had to be replanted annually to get maximum yield and to sustain tea lands. However, according to the information made available, 1,165 hectares only had been replanted during the year under review and it was 1.0 per cent of the total matured tea lands of 116,492 hectares.

(b) Extension and Advisory Services

(i) According to the draft annual report, the staff of the extension services had conducted 33,597 individual and group programmes during the year under review and it was 2.2 per cent decrease as compared with the previous year.

- (ii) Only 137,661 farmers were participated in the extension and advisory programmes during the year under review and the number of farmers participated for the programmes had been decreased by 5,795 as compared with the previous year.
- (iii) The standard ratio of an extension officer to farmers should be 1:1000 to get an effective extension services. However, the actual ratio of an extension officer to farmers was 1:2736. Although 26 extension officers had been appointed during the year under review, it was observed in audit that the proper extension services could not be able to provide as per the prevailing ratio.
- (iv) Even though the subsidy amounting to Rs. 53,100,732 had been given to Uva Regional Office, out of that a sum of Rs. 21,890,296 or 41 per cent had been given for drought relief during the year under review without being utilized for intendant purposes.

4.1.3 Institutional Plant Nurseries

According to the financial statements, 724,809 plants were planted and 482,457 plants were sold by the 07 plant nurseries of the Authority during the year under review. It was observed in audit that 03 plant nurseries were incurred a loss of Rs. 539,937 during the year and the Tispane nursery had reported a continuous loss since the year 2010.

4.1.4 Tea Small Holdings Development Societies

According to the draft annual report, 1,382 Tea Small Holdings Development Societies had been registered and the total registered members were 251,794 as at end of the year under review. Further, only one society had formulated during the year under review but the members had been decreased by 9,699 or 3.8 per cent during the year as compared with the previous year.

4.1.5 International Fund for Agricultural Development(IFAD) and Divinaguma Projects

A sum of Rs. 28,190,865 and Rs.16,980,362 had been provided by IFAD and Divinaguma Projects respectively as subsidies for the development of tea small holders during the year under review and out of that sums of Rs.178,210 and Rs.1,439,544 respectively had not been utilized for the intendant purposes.

4.2 Assets Management

The following observations are made.

- (a) The ownership of the following land and buildings including staff quarters and tea lands shown under the non-current assets had not been acquired by the Authority up to the date of audit on 31 December 2014. Details are shown below.

Regional Office -----	Value	
	<u>Land</u> Rs.	<u>Buildings</u> Rs
Uva	9,747,611	16,768,003
Matara	3,881,875	13,239,829
Ratnapura	5,807,250	16,397,833
Nuwara Eliya	3,724,750	7,383,588
	-----	-----
	23,161,486	53,789,253
	=====	=====

- (b) A building with an office and accommodation facilities had been constructed at Uva Regional Office premises for the use of Uva Regional Organization of Tea Small Holdings Development Societies by spending Rs.1,300,000 from the Authority fund and Rs.5,00,000 from Uva Regional Organization of Tea Small Holdings Development Societies fund in 2005. However, this building had been handed over to the said Organization without being entered with an agreement.
- (c) The Ministry of Agriculture of the Sabaragamuwa Provincial Council had been occupied in the Regional Office of the Authority at Kegalle since the year 1993 which was donated by the Integrated Rural Development Project (IRDP) in 1992 and the value of this building was Rs.800,000. In view of this position the Regional Office of Kegalle had to maintain its office in other place without adequate accommodation facilities.
- (d) Motor vehicles valued at Rs.2,575,000 donated by the Integrated Rural Development Project in 1990 , 1993 and 2000 had been taken into accounts as non-current assets. Nevertheless, the ownership of the motor vehicles had not been transferred to the name of the Authority until 31 January 2015.

4.3 Human Resources Management

According to the information made available, the approved and actual cadre of the Authority as at 31 December 2013 is shown below.

Designation -----	Approved Cadre	Actual Cadre -----	Vacancies -----	Redundant Posts -----
Senior level	39	25	14	01
Secondary Level	44	32	12	03
Tertiary level	293	271	22	25
Primary level	46	44	02	09
Others (Contract/Casual)	-	42	-	-
	-----	-----	-----	-----
Total	422	414	50	38
	=====	=====	=====	=====

The following observations are made in this connection.

- (a) There were 38 redundant posts at the end of the year under review and these posts had not been included in the above mentioned actual cadre even though they were approved by the Department of Management Services on 29 July 2010
- (b) There were 50 vacancies including the Manager (Human Resources and Administration), Manager (Development), Manager (Extension), Manager (Training) and 14 Extension Officers as at 31 December 2013. Further, the Authority had employed 20 Management Assistants, 18 Labourers and 04 Drivers under casual and contract basis in excess to the approved cadre.
- (c) The post of Manager (Human Resources and Administration) had been vacant since 27 April 2010 and an officer holding to the post of Assistant Manager (Project) had been appointed to act with effect from 02 August 2010 at a monthly allowance of Rs.1,100 in the post of Assistant General Manager (Human Resources and Administration) which was not included in the approved cadre of the Authority. It was observed in audit that the General Manager of the Authority had increased his allowance to Rs.1,850 with effect from 05 August 2014 to act the post which is not in the approved cadre and action had not been taken to fill the vacancy in the post of Manager (Human Resources and Administration) up to the date of audit on 31 December 2014.

4.4 Investment of Gratuity Provision

A sum of Rs.8.96 million or 6.9 per cent had been invested out of the total provision for gratuity amounting to Rs.130 million as at the end of the year under review. Hence, the Authority had not invested adequate funds to meet the future obligation as stipulated in the Payment of Gratuity Act, No.12 of 1983.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

Although the annual financial statements should be rendered to audit within 60 days after the close of the financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the Authority had been submitted the financial statements for the year under review to audit only on 18 July 2014.

6. Systems and Controls

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

- (a) Receivables and Payables
- (b) Cash Control and Bank Reconciliations
- (c) Payment of Subsidies
- (d) Payments and Recoveries of Loans and Advances
- (e) Assets Management.