Janatha Estates Development Board - 2014

The audit of financial statements of the Janatha Estates Development Board for the year ended 31 December 2014 comprising the Statement of Financial Position as at 31 December 2014 and the Statement of Income, Statement of changes in Equity and the Cash Flow Statement 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. 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 Accounting Standard 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 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 financial status statement, income statement and changes in equity statement and the 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 Going concern of the Institute

Eighteen estates belonging to the Board continued to run at a loss and the statutory liabilities payable had increased. As a result, the net value of the Board as at 31 December 2014 had decreased upto a negative value of Rs.448,930,523. This decrease was 50 per cent as compared with the previous year. Under these circumstances, it was observed that the further maintenance of the Board is in suspense without the financial assistance of the Treasury or other government source.

2.2.2 Sri Lanka Accounting Standard

The following observations are made.

(a) Sri Lanka Accounting Standard 01

Revised financial statements should be prepared in terms of the Sri Lanka Accounting Standards after 01 January 2002. However, such action had not been taken.

(b) Sri Lanka Accounting Standard 07

Cash flow statement had not been prepared as per Standard.

(c) Sri Lanka Accounting Standard 17

Four lorries valued at Rs.20,500,000 had been purchased on hire purchase basis. In this regard, interest on hire purchase loan had not been calculated and accounted for and the hire purchase creditors had not been disclosed as required by the Standard.

(d) Sri Lanka Accounting Standard 40

Investment Assets had not been identifies and accounted for, under Land and Buildings.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) According to the Accounting Policies of the Board, the closing stock of finished tea should be accounted for, at cost or net realizable value, whichever is less. However, the closing stock of finished tea had been based on gross sales value. As a result the closing stock had been overstated by Rs.942,853.

(b) The closing stock had been treated as the opening stock and the opening stock had been treated as the closing stock while preparing the financial statements of the Hope Estate. As a result, the sales cost and the closing stock had been overstated and understated respectively by Rs.725,594 and Rs.362,797.

(c) The expenditure on repairs to machinery during the year under review amounting to Rs.1,756,528 had been capitalized.

(d) Depreciation of machinery, motor vehicles and the water supply project had been understated by Rs.633,074 and the depreciation of buildings had been overstated by Rs.291,730 due to erroneous calculations.

(e) The expenditure incurred on various cultivation projects implemented in the estates during the year 2009 amounting to Rs.615,630, surcharges on the Provident Fund paid to employees amounting to Rs.5,942,981 and the expenditure of Rs.4,136,732 incurred on repairs to labourers' quarters had not been identified as expenditure of those relevant years. Instead, those had been shown as receivables.

(f) Fifteen acres of the Eee-Ella estate belonging to the Board had been sold for Rs.30 million to the Board of Investments in the year 2014 for which Rs.15million had been obtained as cash and it was agreed to set off the balance of Rs.15 million against the money payable to the Board of Investments. The amount obtained in cash alone had been credited to the Capital Reserve Account. But, action had not been taken to remove the assets from the books by computing the profit derived from sale of assets and to make accounting entries in respect of the amount set off to settle the loan.

(g) The rent of Rs.898,896 recoverable for the year under review on behalf of the building given on rent to a private company had been omitted in the accounts.

(h) The sales income of Rs.3,106,812 from a private company as at 31 December of the year under review which should have been accounted for, as sales had been shown as sales less cost of sales.

(i) The sum of Rs.829,592 paid for 04 lorries purchased on hire purchase basis during the month of December of the year under review had been deducted from the Advance Account instead of being adjusted to the Creditors' Account.

(j) The bungalow at Hanthane had ben given on lease to a private institution and the rent due for the years 2010 and 2014 amounting to Rs.249,093 and Rs.447,000 respectively had not been accounted for.

2.2.4 Unexplained Variations

The following observations are made.

(a) Differences ranging from Rs.710,685 to Rs.62,354,091 were observed while reconciling the Debtors/ Creditors balances of accounts of 09 institutions with the financial statements of the Board.

(b) According to the Financial status statement, the negative net assets amounted Rs.448,930,523 whereas it was Rs.467,031,291 according to the statement of changes in equity. The difference observed amounted to Rs.18,100,768.

(c) A difference of Rs.4,689,158 was observed while reconciling the balances of advances obtained by the Board from the brokers with the confirmation of balances of the brokers.

(d) The net income obtained from tea as per financial statements amounted to Rs.588,323,652 whereas it was Rs.587,845,960 as per Register of the total of Estate Balances. As a result, the difference in the net income from tea amounted to Rs.477,692.

2.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to lack of evidence indicated against each item.

Item		Value Rs.	Evidence not Furnished
(a)	Buildings	1,535,999,899	(i) Schedules (ii) Register of Fixed Assets
(b)	Miscellaneous stocks of Estates	2,931,210	Reports relating to computation of stocks
(c)	Provision for gratuity	327,170,766	Details of employees and the schedule including computation
(d)	Gratuity Payable	310,981,245	List of names of employees and the amount payable
(e)	Advances of Brokers	8,276,108	Letters confirming balances
(f)	Employees and miscellaneous creditors	371,000,012	Schedule
(g)	Accrued expenses	16,959,806	Schedule
(h)	Refundable deposits	48,786,050	Schedule
(i)	Head office deposits	1,108,935	Deposit Certificates
(j)	Lease rent receivable	4,378,844	Confirmation of balances Schedule

2.3 Accounts Receivable and Payable

The following observations are made

(a) Proper action had not been taken with regard to recovery of lease rent of Rs.37,968,476 due from 16 institutions as at 31 December of the year under review and the sum of Rs.4,006,871 recoverable as security fees from 03 institutions for the period 2010 to 2014.

(b) The sum of Rs.9,693,850 deducted by the Board from the employees had not been remitted to the respective institutions or associations.

(c) Action had not been taken upto 31 December of the year under review to recover or to write off from the accounts the balance of Rs.1,351,218 existing in the wages Account Receivable since 1996 due to erroneous computations.

(d) Action had not been taken to recover the sum of Rs.654,756 due from a private institution since 2007.

(e) Action had not been taken to recover the deposit of Rs.538,712 remaining at the Sri Lanka Army from 2013 to the date of audit, that is, 05 January 2016.

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

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Employees' Provident Fund Act. No.15 of 1958	The contributions of each month should be remitted to the Employees' Provident Fund before expiry of the following month. However, contributions of Employees' Provident Fund amounting to Rs.397,765,164 of the head office and the estate sector had not been remitted.
(b) Employees' Trust Fund Act No.40 of 1980	The contribution's of each month should be remitted to the Employees' Provident Fund before expiry of the following month. However, contributions of Employees' Trust Fund amounting to Rs.26,836,693 of the head office and the estate sector had not been remitted.
(c) Payment of Gratuities Act No.12 of 1983	Action should be taken to settle the gratuity due to the employee within one month of his completion of service. However, gratuity amounting to Rs.497,985,454 remained payable from 1983 to 31 December 2014 as a result of not acting so.

(d)	Value Added Tax Act No.14 of 2002	The Value Added Tax of Rs.37,192,957 recovered upto the year 2014 had not been remitted to the Department of Inland Revenue.
(e)	Economic Services Fees Act No.13 of 2006	Economic Services Fees should be paid to the Department of Inland Revenue befor 20th of the month following a quarter. However, payments had not been made for many years and as such the Economic Services Fees payable as at 31 December of the year under review amounted to Rs.7,752,214 and it had not been paid even by 18 January 2016.
(f)	Nation Building Tax Act No. 09 of 2009	Action had not been taken to remit the Nation Building Tax of Rs.5,662,131 recovered from external institutions to the Department of Inland Revenue even by 31 December 2014.
(g)	Establishments Code of the Democratic Socialist Republic of Sri Lanka --------------------------------------	
	(i) Sections 8.1 and 8.2 of Chapter V	It had been informed that an officer who had vacated post should not be employed for services again. In spite of this, an Assistant Superintendent of Estates who had been treated as vacated post due to absenteeism had been recruited as a new employee in September 2013 after 9 years.
	(ii) Section 8.1 of Chapter VII	The salary of an officer who had terminated his services and subsequently appointed in service should be considered as a new entrant. However, the salary of the Assistant Superintendent of Estates had been determined by giving 17 increments to him.
(h)	Financial Regulation 371(2)(c) of the Democratic Socialist Republic of Sri Lanka	Ad hoc imprests should be settled immediately after the respective work is completed. However, advances totalling Rs. 1,857,728 granted from 2003 to 24 November 2014 within the Consumers' Division and the advances totalling Rs.20,539,935 granted at the head office from the year 2006 to 2014 had not been settled even by 31 December of the year under review.

(i)	Patagraphs 3.4.4.1.1 (c) and 4.2.1(a) of the government Procurement Procedure 2006	Twenty computers costing Rs.1,923,775 had been purchased only on the approval of the Chairman, deviating from the provisions in the Procurement Procedure guidelines.
(j)	Paragraph 1.1 of the Public Administration Circular No.22/99 of 08 October 1999 and the Financial Regulations No.103(1)(b), 104, 105 and 110	A vehicle of the Board had met with an accident on 05 April 2012 while being driven by an officer who was not entitled for an official vehicle. Action had not been taken in terms of the financial regulations with regard to the accident of the vehicle.
(k)	Paragraph 3 of the Government Budget Circular No.150 of 07 December 2010	Approval of the Director General of the National Budget along with the recommendations of the Secretary to the Line Ministry should be obtained for vehicles purchased under the Hire Purchase Scheme. However, 04 lorries had been purchased by spending Rs.20,500,000 in contravention.
(l)	Paragraph I of the Public Enterprises Circular No.01/2013 of 15 January 2013	The services of officers over 60 years should be terminated. However, 40 officers of 10 estates contirned to be in service without proper authority and salaries and allowances amounting to Rs.32,232,419 had been paid to them from the year 2008 to 2015.
(m)	Circular of the Commissioner General of Elections No. PRE/2015/43 dated 22 November 2014	Thirty five officers and employees had been recruited with effect from 15 November 2014 by the Board contrary to the provisions in the circular and promotions had been granted to 37 officers. However, they had reported for duties on 01 December 2014.

2.5 Transactions without Adequate Authority

According to the decision of the Cabinet of Ministers No.13/1449/553/008-8 dated 25 October 2013, it had been mentioned that the income from sale of timber should be deposited in a separate bank account and the personal approval of the Secretary to the Ministry of Public Resources and Enterprises should be obtained for its refund. However, contravening this, a sum of Rs.29,283,759 had been spent from that account. Further, priority should been given for statutory responsibilities according to this decision of the Cabinet of Ministers. However, 40 per cent of the income from sale of timber amounting to Rs.12,315,000 had been utilized on incurring ordinary expenditure of the Board.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating activities of the Board for the year ended 31 December of the year under review had resulted in a deficit of Rs.168,842,667 as compared with the previous year's deficit of Rs.500,500,277 showing an improvement in financial results of the year under review amounting to Rs.331,657,610 as compared with that of the previous year. Although there was an under provision of Rs.255,094,973 for gratuities during the previous year, such a provision had not been made during the year under review and the government grant for the year under review had increased by Rs.68,714,924 which had mainly contributed to the improvement in the above financial results.

3.2 Analytical Financial Review

Financial Position	2014	2013
Current Ratio	1:3.5	1:2.9
Quick Assets Ratio	1:4.1	1:3.4

It was observed from the above 2 ratios that the liquidity level had deteriorated during the year under review as compared with that of the previous year. Liabilities over Rs.973 million with specific statutory obligations exists within the current liabilities and it was observed that this could create financial straits in future.

3.3 Legal matters commenced by/ against the Board

The following matters are observed.

(a) The office of the Commissioner of Labour had instituted 614 cases against the Board for non payment of Employees' Provident Funded Employees' Trust Fund contributions as required. The Employees' Provident Funded Employees' Trust Fund payable as at 31 December of the year under review aggregated Rs.247,028,977.

(b) External parties had instituted 55 cases against the Board by 31 December of the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The activities of 16 tea estates, one rubber estate and a coconut estate had been conducted under the Board and the loss incurred on those estates during the year under review amounted to Rs.325,686,780 and it was an increase of 30 per cent compared with the previous year.

(b) It was observed that the contribution of one kilogram of tea of 16 estates during the year under review was within a negative range of Rs.85 to Rs.306.

(c) According to the standards set by the Tea Research Institute, the average finished tea produced of Mid Country Tea, per hectare, is 1,200 kilograms. However, an examination of the tea produced in 16 estates maintained by the Board for the year under review and the past 10 years showed that the awerage production could not be obtained from any of those estates. The produce obtained per hectare ranged from 201 kilograms to 1024 kilograms.

4.2 Management Activities

The following observations are made.

(a) A sum of Rs.40 million had been obtained at an annual interest rate of 8 per cent repayable in 3 years from a Chilaw Plantation on 11 August 2010 for development of tea estates. However, the Board had utilized this loan for paying salaries and allowances. Meanwhile, action had not been taken to pay loan instalments and interest had not been paid upto 31 December 2015.

(b) Action had not been taken to get the consent of the Department of Inland Revenue to set off the retained tax balances of Rs.9,510,464 as at 31 December 2014 against the tax liabilities payable. Meanwhile, the tax certificate concerned had not been furnished to audit.

(c) Bio Science Assets of Rs.5,488,627 and physically non existing cultivation amounting to Rs.31,837,440 had been included in the work in-progress aggregating Rs.37,326,067. Action had not been taken upto 30 June 2016 to write off the physically non existing cultivation.

4.3 Idle and Under Utilized Assets

Out of the entire 752 hectares land of the Galaboda Estate of the Board, 570.25 hectares plus a tree storied tea factory were lying idle from 2003 to the date of audit, that is,30 June 2016.

4.4 Uneconomic Transactions

The following observations are made.

(a) The Standard Certificate obtained from the Sri Lanka Standard Institution for the bottles of drinking water manufactured by the Hope Estate had expired and action had not been taken to review it. However, the SLS emblem continued to be shown and as a result, the officers of the Consumer Authority had sealed the consumer division of water bottles on 14 July 2014. A sum of Rs.760,000 per month had been paid as salaries to 21 employees of that division from the day of sealing to the date of audit, that is, 12 September 2014, without obtaining their services.

(b) Interest amounting to Rs.19,485,545 had been paid during the year under review for advances obtained from brokers without any written agreements due to the financial difficulties existing in the Institution.

(c) The interest on bank overdrafts paid during the year under review amounted to Rs.8.357,703.

4.5 Identified Losses

The following observations are made.

(a) The loss occurred as a result of rejecting the highest bid during the procurement process of selling 106 trees of the Kolapathana Estate and awarding the contract to the Timber Corporation amounted to Rs.980,000.

(b) A sum of Rs.94,534 had been spent to prepare the Internal Audit Programme by a private audit firm in spite of the fact that there is an Internal Audit Unit in the Board.

(c) Expenditure on surcharges payable during the year amounted to Rs.3,363,726 , Rs.74,593,046 and Rs.9,495,305 respectively as a result of non payment of Employees' Provident Funded Employees' Trust Fund and the Employees' Gratuity on the due dates.

4.6 Resources of the Board Given to other State Institutions

The Defender vehicle of the Janatha Estates Development Board had been given for use of the minister in charge of the subject from the month of April 2009.

4.7 Staff Administration

The following observations are made.

(a) The approved cadre of the Board as at 31 December of the year under review was 147 and the actual cadre was 170 resulting in an excess of 23 employees.

(b) A sum of Rs.420,000 had been paid to an Assistant Estate-Superintendent as salaries and allowances from 04 March 2014 to 30 September 2014, the date of audit without taking action against him in term of Section 7 of Chapter V of the Establishments Code for not reporting for work without informing,

(c) Officers had been recruited on contract basis in September 2014 for 2 posts of consultants and for the post of Management in addition to the approved cadre and a sum of Rs.613,000 had been paid as allowances from that date to 31 December of the year under review.

4.8 Transactions of Contentious Nature

The following observations are made.

(a) The Board had agreed to write off the arrears of tax of Rs.34,851,028 recoverable by the Board from a private institution without the approval of the Treasury. The rates and taxes which needs to be personally incurred by the lessee amounting to Rs.2,885,776 and the deposits for water bills amounting to Rs.3,856,372 paid by the lessees and subsequently refunded too had been in that amount.

(b) Twenty perches of the Kolapathana Estate, Kandy had been had been given on lease to a private firm without obtaining the government valuation report. The lessee had given it to 2 institutions on sub contract without the permission of the Board.

(c) Fifteen perches of the Greatvalley Estate, Kandy and 42.58 hectares of the Kopiwatta, Kegalle had been given on lease to external parties and institutions on the annual lease basis of Rs.120,000 and Rs.34,014 respectively without following open procurement procedures and without obtaining the government valuation reports.

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 closure of the financial year in terms of the Public Enterprises Circular No.12 of 02 June 2003. However, the Board had presented the accounts of the year 2014 on 18 December 2015. The accounts had been continuously presented late since the year 2005.

5.2 Corporate Plan

A Corporate Plan had been prepared for the period 2011 to 2013. However, the Board of Directors which met on 07 October 2011 had decided to suspend the activities of this plan due to the adverse financial position existing in the Institution. Accordingly, action had not been taken by the Board to prepare a Corporate Plan since 2012.

5.3 Action Plan

An Action Plan had not been prepared for the year under review.

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. Special attention is needed in respect of the following areas of control.

(a) Accounting
(b) Financial Control
(c) Fixed Assets Control
(d) Sales
(e) Staff Administration