Tea Research Board - 2014

The audit of financial statements of the Tea Research Board for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, 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 15 of Tea Research Board Act, No.52 of 1993. 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. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Tea Research Board as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2. 1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard -07

(i) Although the assets should be timely revalued and the value thereof should be brought to account, action had not been taken accordingly in connection with the fixed assets, the net value of which amounted to Rs.413,219,236 such as lands, buildings, machinery, motor vehicles etc. that had been brought forward over a long period of time without being revalued.

(ii) Although lands and buildings should be separately classified, such a classification had not been carried out in the financial statements as at 31 December of the year under review. Accordingly, the accuracy of the value of depreciation of buildings could not be established.

(b) Sri Lanka Public Sector Accounting Standard -09

(i) Stock should be stated in accounts at cost or net realizable value, whichever is lower. Nevertheless, the same value of a stock of drugs costing Rs.210,408 existed at the physical stock verification as at 31 December 2012 had been included in the financial statements without being physically verified and valued during the year under review.

(ii) A stock of unserviceable motor vehicle spare parts valued at Rs.247,800 and electrical spare parts valued at Rs.232,713 stored at the stores over a period of 05 years had been included in the closing stock of the year under review.

2.2.2 Accounting Policies

The following observations are made

If the accounting practice utilized for the preparation of financial statements does not disclose the manner in which any specific accounting affair should be dealt with, the Best Practice should be more appropriately adopted therein and an accounting policy should be formulated, followed and stated. Nevertheless, the Board had not taken action accordingly in connection with the following assets.

(a) Amortization and accounting of intangible assets valued at Rs.2,404,163 shown in the statement of financial position as at the end of the year under review.

(b) Identification of the tea cultivation valued at Rs.164,388,963 shown in the statement of financial position as at the end of the year under review, separately after being classified as mature and immature cultivation.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The value of G.I. Pipes amounting to Rs.272,275 purchased for the construction of a tea plant nursery had been shown under the fixed assets without being shown under the work-in-progress although the constructions had not been commenced even as at the end of the year under review .

(b) Contributions of the Employees Provident Fund amounting to Rs.20.79 million that should be paid by the Board based on the salaries and allowances of the employees from January 2006 to 30 May 2012 had not been remitted to the Staff Provident Fund operated by the Board itself and to the Employees Provident Fund. Provisions for that amount had also not been made in the accounts and the contribution of the staff that should be deducted upon those allowances had not been deducted from the salaries of the employees as well.

(c) The Tea Research Board had spent a sum of Rs.4,142,173 in respect of the project for the examination of the suitability of the Sri Lankan tea processing process through the Lowery Tea Processing Research Project implemented from the year 1979 to 1982. The project, being inappropriate to the tea production in Sri Lanka, it had been abandoned. Nevertheless, that amount had been shown under the work-in-progress from the year 1982 even up to the end of the year under review.

(d) Out of the stock of chemicals purchased for each research division of the Board, the stock remained by the end of the year under review had not been included in the stock balance of the end of the year under review and the details on the values thereon had not been made available to audit. Further, Bin Cards or Stores Ledgers had not been properly maintained in respect of each stock of chemicals of the Soil Plant and Agronomy Division and as such the accuracy of the physical stock balance as at the end of the year under review could not be established.

2.2.4 Unexplained Differences

In comparing fixed assets aggregating to Rs.973,500,665 shown in the fixed assets schedule as at the end of the year under review with the relevant accounts, differences of Rs.158,196,303 were observed. The Board had not taken action to identify and correct these differences which had been brought forward for a long period of time even by 31 December 2014. Further, it was stated that the assets valued at Rs.662,077 shown in this fixed assets account were available at the Colombo Laboratory, whereas it was observed that there was no such a laboratory belonging to the Board in Colombo. Nevertheless, action had not been taken to eliminate those values from the accounts.

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

Instances of non-compliance with the following Laws, Rules and Regulations etc., observed during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations - No. 177(1)	Even though the daily collections should be banked on that date itself or at earliest possible, out of the income collected by Hanthana, Matugama and Deniyaya sub offices, sums of Rs.755,355, Rs.16,275 and Rs.62,373 had been utilized for day to day expenses respectively.
(ii) Financial Regulation No.371 (2)(b)	Advances exceeding the limit of Rs.20,000 had been granted in 11 instances.
(iii) Financial Regulation No. 387	The Paying Officer should frequently check as to whether the bank balance is sufficient to make all the payments carried out through the cheques. Nevertheless, as a result of failure to do so, an overdraft balance of Rs.21,237 had existed in the bank account belonging to the Ratnapura Extention Office of the Board by the end of the year under review.
(b)Treasury Circular No 842 dated 12 December 1978	The Register of Fixed Assets had not been properly updated and the lands belonging to the Board had not been included in the Register of Fixed Assets.
(c) Public Administration Circular No 41/90 of 10 October 1990	Fuel consumption of motor vehicles had not been tested as per circular instructions.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating activities of the Board for the year under review had resulted in a deficit of Rs. 36.251 million as compared with the corresponding deficit of Rs.23.690 million for the preceding year, thus indicating a deterioration of Rs.12.561 million in the financial results as compared with the preceding year. This was mainly due to the increase of operational expenses and the increase in the loss of the St. Joachim Factory.

3.2 Analytical Financial Review

The operating results of two estates managed by the Board namely St. Coombs and St. Joachim for the year under review had been a net profit of Rs.4.745 million and a net loss of Rs.13.656 million respectively. As compared with the preceding year a deterioration of Rs.1.693 million and Rs.12.577 million was observed respectively.

The following observations are made in this connection.

(a) As compared with the preceding year, sales of tea and the cost of production of the two factories of the two estate are as follows.

	St. Coombs Estate		St. Joachim Estate	
	2014	2013	2014	2013
Sale of tea (Kilograms)	369,706	374,098	346,446	297,899
Production Cost (Rs. per Kilogram)	500.04	473.21	457.61	455.89
Yield per hectare (Kilograms)	2,400	2,400	1,532	1,746
Average net sale (Rs. per Kilogram)	493.97	485.05	432.85	458.62

Following observations are made in this connection.

(i) Although the sales quantity of St.Coombs Estate had decreased by 4,392 kilograms in the year under review as compared with the preceding year , as a result of increase in the average net sales price by 1.84 per cent , the sales value had increased by Rs.1.143 million. Nevertheless, increase in the cost of production comparatively by 5.67 per cent had resulted in decrease of the profit of the factory.

(ii) According to the accounts of the factory, sales of the St.Joachim Estate had increased by 48,547 Kilograms as compared with the preceding year, whereas increase in the cost of sales and the decrease in the sales price had given rise to the increase in the operating loss by Rs.11.185 million. A loss of Rs.0.01 million had been suffered from the rubber estate situated therein and it had been an increase in the loss by Rs.1.322 million as compared with the preceding year.

(iii) According to the information made available, the plant capacity of the St.Coombs and St. Jochim factories had been 10,000 kilograms and 15,000 kilograms of green leaf per day respectively. However, it was observed that the actual average utilization of those plants had been 4,500 kilograms (45per cent) per day and 4,600 kilograms (30.67per cent) per day respectively.

(b) Although the lands belonging to the St.Joachim Estate had been cultivated with paddy, tea, rubber, coconut and other crops, action had not been taken to obtain income generated from the paddy cultivation of 8.74 hectares and coconut cultivation of 3.89 hectares according to the Annual Report for 2012. Further, action had not been taken to count the number of trees standing on those estates and document in the registers.

4. Operating Review

4.1 Performance

(a) Research Activities

According to the performance reports, a large number of research projects of the Board had been long term projects which were in progress and the Action Plan had been prepared only for the financial targets but not for the physical targets. Accordingly, the achievement of the physical targets could not be established in audit. However, out of the estimated amount for 15 programmes relating to research activities of the Board, 97.71 per cent for the recurrent expenditure and 48.99 per cent for the capital expenditure had been spent respectively, by the end of the year under review. It was observed in audit that capital expenditure of 7 programmes had been at a lower level below 50 per cent of the estimated amount and recurrent expenditure of 5 programmes had been incurred exceeding the estimated amount by Rs.9.47 million.

(b) Other Research Projects

(i) As solutions to the issues faced by tea small holders when plucking green tea leaves, the Board had initiated a special project in order to introduce and popularize tea plucking machines and related equipments to the tea small holders and the Treasury had approved Rs.100 million for that purpose. A sum of Rs.48 million had been received for this project in the years 2013 and 2014 and with the co-orporation of the Tea Small Holders Development Authority, Private Tea Factory Owners Association, Tea Small Holders Association and Sri Lanka Tea Board, it had been implemented under the guidance of the Ministry of Plantation. Awareness programmes for tea small holders had been conducted in the year 2013 and 200 tea leaves plucking machines, 50 ground drilling machines, 100 pruning machines and relevant equipments had been distributed among the tea small holders during the year under review. Accordingly, the Board had spent Rs.43.12 million for this purpose by the end of the year under review.

(ii) For the purpose of manufacturing perfumes using Refusal Tea upon a requirement of a private institution, the Board had introduced a methodology and all the expenses had been borne by the relevant private institution. In order to obtain a royalty at 2 per cent for transferring this technology, an agreement had been entered into with the institution concerned, whereas its progress had not been furnished to audit.

4.2 Management Inefficiencies

The following observations are made

(a) Although 03 tea leaves drying machines had been installed at the St.Koombs Tea Factory, two of which had been inoperative without being utilized by 27 February 2015, the date of audit. As a result, the machine presently in use was uninterruptedly kept in operation throughout 24 hours. Accordingly, it was observed in audit that, in case that machine becomes out of order, it would give rise to a risk for the production process of the factory being paralyzed completely.

(b) In order to purchase a Water Still Unit, an advance amounting to Rs.110,124 had been paid to a private institute on 31 December 2011. However, it was observed that the said institution had been closed down in the year 2012, whereas the Board had not taken action to recover that amount from the officers responsible for even by 30 June 2015.

(c) Lands about 05 hectares in extent owned by St.Joachim Estate had been encroached by outside parties for over a period of 25 years, but the Board had not taken action to evacuate those encroachers.

(d) Recreation and Development Tea Information Centre scheduled to be completed at an estimated amount of Rs.900,000 during the year under review had not been completed even by 27 February 2015, the date of audit.

(e) A stock of roofing sheets purchased at Rs.462,280 for sheltering the dwellings of the estate workers in the year 2013 had remained idle in the stores without being utilized for the relevant purpose even by 31 March 2015, the date of audit.

(f) The land and the factory belonging to the Lamilier Estate of the Board had been leased out to a private party for a period of 50 years at an annual rental of Rs.600,000 on 16 July 2003 and as required by the agreement the lease rent should be revised once in every 05 years under the valuation of the Government Valuer. Nevertheless, the Board had not taken action to revise the lease rent up to the end of the year under review and a case had been filed in order to re-take over the land and the factory.

(g) Without being called for quotations, motor vehicle spare parts valued at Rs.599,090 had been purchased from a private institution in 11 instances during the year under review. However, the physical verification conducted in that connection observed that, the relevant institution was a place where only motor vehicle repairs were effected and further it had acted as a mediator in the supply of motor vehicle spare parts to the Board. Further, the institute had a fully equipped garage maintained while paying salaries to the employees, whereas it was observed that 03 vehicles of the institute had been parked in the garage for repairs by 27 February 2015.

(h) Even though the extent of the Walahanduwa land managed by the Board had been identified as 5.6 hectares, the tittle of which had not been vested and it had not been disclosed in the financial statements as well.

In this connection, the Chairman had informed me that, the said land was a property acquired by the State Plantation Corporation and action was already being taken to transfer that land with the relevant parties and it had been scheduled to be completed in the year 2015.

(i) It was observed that a huge gate had been made at the work yard of the Technical Division of the Research Consultation and Extension Centre, Rathnapura in June for a private resident of a higher ranking officer of the Board.

4.3 Idle and Underutilized Assets

The following observations are made.

(a) Although Rs.190,000 and Rs.143,130 spent for the improvement of water purification system and construction of the fence of the Agronomy Division respectively had been shown under the work-in-progress as at 31 December 2013, those activities had not been commenced even by 31 March 2015. Further, a sum of Rs.5 million had been received from the General Treasury for the improvement of the aforesaid water purification system in February of the year under review, whereas those funds had remained idle up to the end of the year under review due to the failure to execute the relevant activities.

(b) Out of the capital contribution received for the constructions and purchasing during the years 2013 and 2014, a sum of Rs.9,980,000 had remained idle up to the end of the year under review due to the non-execution of the procurement activities as palnned.

(c) A sum of Rs.8,643,051 had been received from the Methyl Bromide (Me Br) Project for soil research activities in the year 2007 and 2008 and the service contract period had expired on 10 March 2010. Nevertheless, a sum of Rs.913,747 had been saved without being utilized for the project activities even by the end of the year under review.

4.4 Personnel Administration

According to the information made available by the Board, the approved cadre and the actual cadre as at the end of the year under review stood at 443 and 360 respectively. Further, 175 posts had fallen vacant as at that date and the number of un-approved employees had been 92.

The following observations are made in this connection

(a) Aforesaid vacancies included 39 vacancies of Executive level officers, 100 non-executive level officers including 46 Technical Officers and 13 Extension Officers.

(b) Although applications had been invited for 10 vacancies of the Board by publishing newspaper advertisement at a cost of Rs.956,614 during the year under review, recruitments for those vacancies had not been made even by 30 June 2015, the date of audit.

(c) In terms of the Public Administration Circular No.25/2014 dated 12 November 2014, 112 employees recruited on temporary or casual basis and already in the service (105 posts of Primary Grade and 07 posts of Management Assistants) had been granted permanent appointment with effect from 24 October 2014. As a result of this recruitment, an excess cadre of 91 employees had arisen. Accordingly, it was observed in audit that a sum of Rs.3,119,298 at Rs.34,278 (inclusive of allowances) per employee was paid as salaries per month in respect of 91 un-approved posts of Labourer. Further, the paragraph 03 of the above circular stated that an employee should have passed at least Grade 8/Year 9 for the confirmation of the post. Nevertheless, the accuracy of the certificates produced for those qualifications had not been established by the Board.

5 Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the draft annual report should be furnished to the Auditor General within 60 days from the close of the financial year. Nevertheless, the draft annual report for the year under review had not been furnished up to 30 June 2015.

5.2 Unresolved Audit Paragraph

(a) In order to reimburse a monthly labour allowance for the maintenance of quarters of the Director, Deputy Director and officers in charge of the Regional offices, the approval of the Board of Directors had been granted on 24 May 2007. This Labour allowance had been computed by adding production bonus, overtime, attendance allowance etc. to the daily labour salary and the Board had reimbursed Rs.2,717,945 and Rs.2,734,295 for 13 officers in the years 2013 and 2014 respectively. However, approval of the Line Ministry and the Treasury had not been obtained for this purpose and action in accordance with the instructions given at meeting of the Committee on Public Enterprises held on 19 November 2014 had not been taken even up to 30 June 2015.

(b) Action had not been taken to obtain approval of the Treasury in connection with the privileges such as leave, quarters and non-recovery of charges for water and electricity consumption which had been granted by the Board to the staff superseding the relevant circulars and the other similar institutions.

(c) According to the information made available, a sum of Rs.22,035,213 had not been recovered from 09 officers who had left the service without being served during the compulsory service period despite being obtained full pay study leave, even by 30 June 2015. However, it was observed in audit that a period of 05 years had elapsed the leaving of service by these officers and two of them had already died and the recovery of this amount from the guarantors was uncertain.

6. Systems and Control

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 is needed in respect of the following areas of control.

(a) Control of Advances
(b) Assets Management
(c) Factory Management