

Tea Small Holdings Development Authority - 2014

The audit of financial statements of the Tea Small Holdings Development Authority 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 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

The 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 Authority'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 Authority'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 powers to the Auditor General to determine the scope and extent of the audit.

I believe that the 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 Small Holdings Development Authority, 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) According to Sri Lanka Public Sector Accounting Standard 01, except in a particular instance, expenditure should not be shown by deducting from the revenue. Nevertheless, only the net result of revenue received from sale of tea leaves and parts of mother shrubs and conducting courses in Hantana Training Centre instead of being shown as income and expenditure separately. Further, out of the sundry income totalling Rs. 4,162,477, a sum of Rs. 2,331,811 representing 56 per cent had been shown as sundry income without being classified.
- (b) According to Sri Lanka Public Sector Accounting Standard 03, as the Government Grant of Rs. 93,610,309 received during the period from 1998 to 2001 for the expansion of the tea factory network had not been adjusted accurately, it had been brought forward in the accounts. Moreover, it had been shown in the statement of financial performance in the year under review as a deferred income, without adjusting retrospectively.

2.2.2 Accounting Policies

(a) Provisions for the Payment of Employees' Gratuity

The following observations are made.

- (i) Even though provisions for payment of employees' gratuity should be made after completion of one year of the employees' service period, making total provisions at the beginning of the 6th year of the employees' service period is the policy of the Authority. As such, there is a possibility of an unusual effect on the financial result in the year of making provisions as the Authority had not considered in this matter.
- (ii) Even though the policy of the Authority is making total provisions at the beginning of the 6th year of the employees' service period for payments of employees' gratuities, provisions had been made for the entire period from the 5th year of the service period for the full period of 05 years by Matara, Hantana and Ratnapura regional offices.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Income amounting to Rs. 2,296,929 and Rs. 1,451,142 received from sale of tea leaves and buds of mother bushes had been brought to account in regional offices in the year under review. However, action had not been taken to capitalize the value of tea shrubs and mother bushes of those plantations.
- (b) Action had not been taken to revalue to disclose the fair value of fully depreciated non-current assets which are being used at present except for the motor vehicles owned by the Authority

2.2.4 Unexplained Differences

The following observations are made.

- (a) A difference of Rs. 898,423 was observed in the reconciliation of ledger balances of 05 Employees' Loans and Advance Accounts and 02 Creditors' Accounts with the related schedules as at the end of the year under review.
- (b) Cost of buildings amounting to Rs. 39,498,038 shown in the financial statements as at the end of the year under review had been shown as Rs. 40,602,444 in the Register of Fixed Assets, thus observing a difference of Rs. 1,104,406.
- (c) According to the financial statements, the values of lands and buildings of the Hantana Training Centre amounted to Rs. 9,189,862 and Rs. 34,873,648 whereas according to the Boards of Survey reports, the values shown as Rs. 7,170,987 and Rs. 34,542,475 respectively. As such, a difference of Rs. 2,350,048 was observed in lands and buildings.

2.2.5 Lack of Evidence for Audit

The following documentary evidence had not been made available to audit.

Particulars	Value	Evidence not made available
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	Rs.	
Re-scheduled Motor Vehicle Loans	7,688,482	Schedules and Supporting Documents
Motor Cycle Loans given to Tea Inspectors/Extension Officers	8,780,927	-do-

2.3 Accounts Receivable and Payable

The debtors and creditors valued at Rs. 34,465,672 and Rs. 3,057,868 respectively as at the end of the year under review had not been recovered or settled by the Authority for over 05 years.

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

Instances of non-compliance with Laws, Rules and Regulations 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

As the activities relating to tea factories, set out in the activities of the Act of the Authority are not carried out now, action had not been taken to amend the Act.

The Act had been already referred to the Ministry of Plantation to amend the said Act and the Chairman had reported to me that the Act had been referred to the Legal Draftsman's Department by the Ministry.

(ii) Section 2(b) (ii) & (iv) of the Tea Small Holdings Development Authority Amended Act, No 34 of 2003

Two members had not been appointed to the Board of Directors which should comprise of 13 members.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2014 had resulted in a surplus of Rs.106.11 million as against the deficit of Rs.207.48 million for the preceding year, thus indicating an improvement of Rs.313.59 million in the financial result of the year under review as compared with the preceding year. The increase in provisions granted from the Consolidated Fund by Rs.229.93 million and the decrease in the development expenditure by Rs. 94.95 million had mainly attributed to this improvement.

3.2 Legal Action instituted against/by the Authority

Four employees had filed cases in the courts against the Authority claiming compensation totalling Rs. 3,115,116.

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 338.03 million kilograms and the tea small holders' contribution thereto was 247.38 million kilograms or 73.18 per cent. The total tea production in Sri Lanka during the preceding year was 340.22 million kilograms and the tea small holders had contributed 244.30 million kilograms or 71.81 per cent therein. Accordingly, the contribution of the tea small holders had increased by 1.37 per cent during the year under review.

4.1.2 Tea Plantation Development Subsidies

According to the Annual Report of the Authority presented, a sum of Rs. 345.1 million had been spent for development activities such as subsidies given for tea replanting and new planting Provision of extension services, social development and institutional strengthening during the year under review.

The following observations are made in this connection.

- (a) The plantation development cost and the cost of implementation for the year under review and for the preceding four years are given below.

	2014	2013	2012	2011	2010
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Development cost (Rs. Million)	345.1	440.0	276.3	208.0	189.2
Implementation cost (Rs. Million)	252.8	238.5	233.5	218.5	205.4
Implementation cost per Rs.1 of the Development cost	0.73	0.54	0.85	1.05	1.08

According to the above information, the development cost had dropped by Rs. 94.9 million in the year under review as compared with the preceding year and the cost of implementation per one rupee of the development cost as well had increased by Rs. 0.19 as compared with the preceding year.

- (b) According to the national requirement, 2,300 hectares should be replanted annually to get the maximum yield and to maintain tea lands. However, according to the information made available, only 720 hectares had been replanted during the year under review under the subsidy scheme, representing 0.62 per cent from the total matured tea lands of 116,492 hectares. As 21,613 hectares from these matured tea lands had been plantations older than 25 years, information from census had shown the necessity of replanting the entire extent of the said plantation.
- (c) The subsidy given for tea replantation in the year under review amounted to Rs. 258.09 million and it was 65.88 per cent of the expected subsidy amounting to Rs. 391.75 million.

4.1.3 Crop Rehabilitation

The following observations are made.

- (a) Even though it had been targeted to plant 0.8 million plants by following recommended methods for replantation, only 0.271 million plants had been planted during the year that is only 34 per cent of the targeted amount.
- (b) Even though it had been expected to grant cultivation subsidies amounting to Rs. 17.5 million for crop rehabilitation in the year under review, only a sum of Rs. 5.9 million or 44 per cent of the expected amount had been granted. Further, it had been expected to issue 2,089 permits for granting subsidies. Nevertheless, only 1,498 permits could be issued.

4.1.4 Revolving Loan Fund of the Tea Development Project

According to the Annual Report relating to the year under review, the Central Bank had allocated SDR 15.4 million and granted loans only for 20 applicants for tea replantation and 02 applicants for commercial nurseries during the year under review from the revolving fund made for the development of tea smallholders.

4.1.5 Institutional Plant Nurseries

The following observations are made.

- (a) According to the financial statements, operating result of 08 plant nurseries during the year under review had been a net surplus of Rs. 52,154 as compared with the corresponding net surplus of Rs. 167,217 for the preceding year, thus indicating a decrease in the surplus by Rs. 115,063.
- (b) The gross profit ratio of plant nurseries for the year under review had been 0.6 per cent as compared with the corresponding ratio of 2.3 per cent for the preceding year.
- (c) The Tispane Nursery had incurred losses continuously and losses amounting to Rs.206,540 and Rs. 232,174 were observed during the year under review and preceding year respectively.
- (d) The number of perished plants of 07 nurseries in the year under review had been 150,754 and represented 10 per cent of the total plants. The perished plants of Rahathungoda, Higuloya, and Vogan Nurseries had abnormally increased during the year under review.

4.1.6 Utilization of Project Aids

The following observations are made.

- (a) Out of the sum of Rs. 19,880,000 received under Divinaguma Project, a sum of Rs.7,070,800 issued to 08 Regional Offices for development activities such as new tea planting and re-plantation, pepper cultivation and crop rehabilitation (in filling) in tea

lands and a sum of Rs. 6,211,877 retained in the Head Office had been saved without utilizing for the relevant purposes.

- (b) The expected financial aid for development activities such as new tea planting and replantation, pepper cultivation and crop rehabilitation (in filling) for cultivators in 08 districts under Divinaguma Project had been Rs. 21,608,880 and the actual financial aid granted had been Rs. 12,943,456. It ranged from 25 per cent to 66 per cent.
- (c) Out of the sum of Rs. 357,725,510 received for the soil aid project, a sum of Rs.18,297,791 had remained in the Head Office and Regional Offices without utilizing for the relevant purpose.
- (d) A sum of Rs. 348,000 granted to the Kalutara Regional Office for the Tea Project for low income female recipients had not been utilized for the relevant purpose even up to the end of the year and that amount had been shown as payables under other creditors.

4.2 Assets Management

The following observations are made.

- (a) The ownership of lands and buildings valued at Rs.23,161,486 and Rs. 55,302,611 respectively including staff quarters in 04 Regional Offices and tea lands had not been vested with the Authority even up to the end of the year under review.
- (b) Action had not been taken to vest Walahanduwa sub office, nursery and Akmeemana mother plantation extension centre etc. belonging to the Galle Regional Office, with the Authority.

4.3 Transactions of Contentious Nature

Spending a sum of Rs. 5,908,811 for tea farmers' meet held at the Temple Trees on 12 November 2014 was problematic in audit.

4.4 Human Resources Management

According to the information made available by the Authority, the approved cadre of the Authority as at 31 December 2014 had been 422 and the actual cadre including the 06 posts of primary level recruited on contract basis was 430. There were 53 posts in excess and 51 vacancies as at that date.

The following observations are made in this connection.

- (a) Vacant posts as at 31 December 2014 had included the Deputy General Manager (Development), Manager (Human Resources and Administration), Manager (Development) and Manager (Training).
- (b) According to Public Administration Circular No.2014/10 , excess cadre in the year under review was 53 due to making 22 employees permanent, who had completed 180 days.

- (c) According to information made available to audit, the ratio of extension agents to tea farmers should be approximately 1:1000 for an effective extension service. Nevertheless, this ratio which existed as 1:2730 in the preceding year had increased up to 1:2736 in the year under review due to vacancies in 26 posts of tea inspectors/extension officers.

4.5 Unresolved Audit Paragraphs

It had been discussed in respect of appointing and paying allowances to an officer for an acting post, not in the approved cadre of the Authority at the meeting of the Committee on Public Enterprises held on 19 November 2014. A Directive had been given to the Chief Accounting Officer and the Accounting Officer to take proper action in respect of appointing him in the acting post of Assistant Manager (Human Resources and Administration) and paying allowances deviating from the recruitment procedure. However, the Authority had not taken action to implement the Directive even up to 14 August 2015, the date of audit.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budgeted and the actual figures thus observing that the budget had not been made use of as an effective instrument of management control.

5.2 Audit Committees

Even though Audit and Management Committees should meet at least once in 03 months, in terms of Section 7.4.1 of Public Enterprises Circular No.PED/12 of 02 June 2003, only 03 meetings had been held in 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 Authority from time to time. Special attention is needed in respect of the following areas of control.

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