Janatha Estates Development Board – 2015

The audit of financial statements of the Janatha Estates Development Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, 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. As the delay of the presentation of the financial statements for the year ended 31 December 2015 the Audit Report on the transactions of the Board had been issued to the Chairman of the Board on 15 February 2017.

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 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).

1.4 Basic 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 income statement, 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 Going Concern of the Institute

Twenty three estates belonging to the Board had continued to run at a loss and the statutory liabilities payable had increased. As a result, the net assets of the Board as at 31 December 2015 had become a negative value of Rs.247,533,243. Even though, these net assets had increased by 45 per cent as compared with the previous year it was observed that further maintenance of the Board is in suspense without the financial assistance of the Treasury or other Government assistance.

2.2.2 Non-compliance with Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 01

As the lease revenue had not been brought to account on accrual basis by the Board as per the Section 27 of the Standard, the lease revenue relating to the year 2014 and previous years amounting to Rs.57,562,636 and the lease revenue relating to the year 2016 amounting to Rs. 10,791,154 had been brought to account as lease revenue of the year under review. Further, a tea revenue relating to the year 2013 amounting to Rs.3,082,581, had been included in the tea revenue of the year under review, and as such the revenue for the year under review had been overstated.

(b) Sri Lanka Accounting Standard 07

(i) The gratuity surcharge expenditure relating to Head Office in the year under review amounting to Rs.436,819, but not paid in cash, had not been adjusted to the loss before tax in the cash flow statement as non-financial item in terms of Section 20 (b) of the Standard.

(ii) Even though, the bank loan interest included in the financial expense in the year under review amounting to Rs.10,342,876 should have been adjusted to the operating loss and the loan interest paid in cash amounting to Rs.4,016,637 should have been recorded as cash outflow in the operating activities, these adjustments had not been made.

(iii) Action had not been taken to adjust the long term bank loan paid in cash in the year under review amounting to Rs.31,547,120 as cash outflow under financing activities in the cash flow statement and the interest expense deducted by bank amounting to Rs.41,367,908 had not been adjusted to the profit of the cash flow statement, while a sum of Rs.70,218,840 had been shown under working capital changes.

(c) Sri Lanka Accounting Standard 08

Amortization and depreciation of the fixed assets and mature tea plantation of the Hanthana and Galaha Estates relating to the year 2014 amounting to Rs.1,609,658 and a revenue of latex relating to the year 2014 amounting to Rs.3,338,556 had been adjusted to the loss of the year under review, contrary to the Sections 42 and 49 of the Standard.

(d) Sri Lanka Accounting Standard 16

As the adjustments for depreciation had not been made for fixed assets valued at Rs,21,453,236 purchased since the year 2009 up to the year 2014, the depreciation expense relating to the year under review had decreased by Rs.2,421,468.

2.2.3 Accounting Policies

The following observations are made.

(a) At the end of 04 years since the commencement of a tea plantation, the cost incurred to the respective plantation, should be transferred for the mature plantation from immature plantation according to the accounting policy of the Board. Nevertheless, the cost incurred amounting to Rs.14,906,126 for the tea plantation of the Hope Estate commenced in the years 2009 and 2010 had not been transferred to mature plantation even by 31 December of the year under review.

(b) According to the accounting policy of the Board, equipment, furniture and fittings should have been depreciated at the rate of 12.5 per cent annually. Nevertheless, these assets had been depreciated by the Board at the rate of 5 per cent since for a longer period, contrary to the accounting policy.

2.2.4 Accounting Deficiencies

The following observations are made.

(a) In rectifying the tea revenue overstated in the year 2014 amounting to Rs.2,151,516, had been debited to the tea revenue account of the year under review instead of adjusting the profit for the previous year. As such tea revenue for the year under review had been understated by similar amount.

(b) Miscellaneous revenue amounting to Rs.2,057,585 recorded in the Control Account maintained in the Head Office on behalf of the estates had not been identified as revenue for the year under review.

(c) According to the financial statements for the year under review, the work-in- progress as at the beginning of the year amounting to Rs.29,862,260 had been posted as deductions of the current year and the value as at end of the year amounting to Rs.28,504,681 had been posted as additions for the year. Nevertheless, according to the accounts of the Head Office and the Estates, the value of deductions and additions of the work-in-progress for the year under review amounted to

Rs.8,996,734, and Rs.7,740,582 respectively. Thus, it was ascertained in audit, the information furnished in the financial statements was incorrect. Similarly, the value, brought to account as work-in-progress had included the expenditure incurred in the year 2009 and thereafter. Most of the projects commenced in the year 2009, had been unsuccessful at present and action had not been taken to write off that balances from the accounts.

(d) Expenditure incurred in the year 2014 and 2015 for the quarters of the Chairman of the Board situated in the Mount Gene Estate amounting to Rs.1,488,438 had been brought to account as sundry debtors without being identified as expenditure for the respective years.

(e) The depreciation expenses relating to equipment, furniture and fittings for the year under review had been brought to account understating by Rs.417,484.

(f) As following deficiencies had existed in preparing cash flow statement, the balancing of the cash flow statement was questionable in audit.

(i) The provision for gratuity for the year under review amounting to Rs.39,149,946 as per the ledger accounts had been shown as Rs.38,901,897 in the cash show statement. As such a difference of Rs.248,049 was observed.

(ii) The payment of gratuity for the year under review amounted to Rs.111,486,915. Nevertheless, it was posted as Rs.104,254,000 in the cash flow statement and as such the cash outflow from operating activities had been understated by Rs.7,232,915.

(iii) Adjustments made in the equipment account relating to the Hope Estate valued at Rs.1,089,340 and exchanging container equipment among estates amounting to Rs.779,485 had been considered as purchases of fixed assets and shown as cash outflow of the investing activities.

(iv) The expenditure for field development shown in cash flow arising from investing activities amounting to Rs.37,038,000 had been Rs.34,419,774 as per ledger accounts. As such the net cash flow arising through investing activities had decreased by Rs.2,618,226.

(v) Even though, a sum of Rs.82,220,000 had been shown as cash and cash equivalents in the cash flow statement at the end of the year, it had been Rs.82,183,009 as per the Bank Reconciliation Statements and Estate Accounts in the year under review. Therefore, a difference of Rs.36,991 was observed in the balance of cash and cash equivalents as at the end of the year.

(g) The capitalized value under immature plantation should be added to the mature plantation in maturing of plantations. Even though, a cost of Rs.761,070 had been eliminated from other immature plantation as per the financial statements of the year under review a sum of Rs.5,146 out of that value only had been added to other mature plantation.

(h) A sum of Rs.910,188 receivable for 09 months of the current year relating to providing of security service for the Embilipitiya Paper Factory of the National Paper Corporation had not been brought to account.

(i) As the depreciation had not been adjusted in the year under review in respect of fixed assets purchased by 04 estates and tea plantation identified as mature plantation from immature plantation, the depreciation for the year under review had been understated by Rs.665,959.

(j) The cost incurred for other immature plantation in the year under review as per estate accounts amounted to Rs.114,708. Nevertheless, as per the financial position as at 31 December of the year under review the respective asset was over computed by a sum of Rs.1,388,164 due to adding a value of Rs.1,502,872 under other immature assets.

2.2.5 Unexplained Differences

The following observations are made.

(a) The Inter Estate Transactions maintained for the exchanging goods and cash among estates should be compensated each other. Nevertheless, a debit balance of Rs.8,421,948 without being compensated had remained among estate accounts at the end of the year under review.

(b) A difference of Rs.495,200 was observed between the tea revenue as per the annual financial statements of the two factories of Loolkandura and Nagasthenna and the tea revenue shown in the crop ledgers of both estates in the year under review.

(c) In a comparison with the balances of 3 accounts such as provision for gratuity account, gratuity payable account and provision for gratuity surcharge account shown in the financial position relating to 06 estates with the relevant schedules, the differences of Rs.1,096,616, Rs.2,739,733 and Rs.158,272 respectively were observed.

(d) Sales expenditure amounting to Rs.8,252,037 deducted from made tea revenue as per sales invoices had been shown as Rs.6,965,307. As such that expenditure had been understated by Rs.1,286,730.

(e) Even though, an expenditure for immature tea plantation had not been incurred as per estate accounts in the year under review, the expenditure amounting to Rs.3,542,254 had been capitalized under mature tea plantation in the final accounts.

(f) As per estate accounts of the year under review, no deduction whatsoever had been observed under mature tea plantation. Nevertheless, a sum of Rs.5,040,303 had been removed from mature tea plantation in preparing financial statements.

2.2.6 Lack of Evidence for Audit

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

Item		Value	Evidence not Furnished
		Rs.	
(a)	Buildings	1,539,765,345	(i) Schedules (ii) Register of Fixed Assets.
(b)	Provision for Gratuity, Gratuity Payable and Provision for Graruity Surcharges relating to 03 Estates.	209,061,775	Schedules of payment of Gratuity.
(c)	Trade and Other Receivable Accounts.	550,234,588	(i) Schedules. (ii) Age Analysis of Balances of Debtors. (iii) Registers of Confirmation of Balances.
(d)	Payable Trading Accounts	549,734,176	(i) Schedules. (ii) Age Analysis of Balances of Creditors..

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The Board had failed to recover a lease rental revenue relating to the year under review amounting to Rs.39,606,458 and a revenue receivable for providing of security services for the institutions leased out as at 31 December of the year under review amounting to Rs.6,701,445.

(b) Necessary course of action had not been taken to settle the balances of estate creditors exceeded 05 years amounting to Rs.7,083,975.

(c) Action had not been taken to recover a sum of Rs.3,717,404 receivable from a Government Trading Institution relating to sale of made tea of the Board.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations etc.	Non-compliance
(a) Employees Trust Fund Act No.46 of 1980, Gratuity Payments Act No.12 of 1983 and Employees Provident Fund Act No.15 of 1958.	As non-settlement of institutional statutory liabilities properly in terms of the provisions of the respective Acts, the value of total payable statutory liabilities as at 31 December 2015 amounted to Rs.1,285,929,040 including sums of Rs.327,882,739, Rs.26,441,310, Rs.3,328,025, Rs.4,017,078 and Rs.418,598,740 payable to Employees Provident Fund, Employees Trust Fund, Estate Workers Provident Fund, Ceylon Planters Provident Fund, respectively and a sum of Rs.505,661,148 payable to Employees Provident Fund and Employees Trust Fund on court decisions.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
(i) Chapter VIII Section 4	Overtime allowance of Rs.23,407 had been paid for deploying in duties at weekend and public holidays for 2 staff Grade Officers who were not entitled to overtime allowances.
(ii) Chapter XLVIII Section 31	A disciplinary enquiry had not been conducted for a driver interdicted in the Board and the salaries amounting to Rs.97,403 had been paid for a period of 13 months after the interdiction.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
Financial Regulation 175 (1) ‘b’	Even though, the registers should be maintained to indicate accurately the total amount of receivable to an institution, total amount collected and total arrears, the registers had not been maintained so as to identify specifically the amount received from the leasing out of the properties of the Board or the amount receivable.
(d) Public Enterprises Circulars	
(i) Circular No.1/2013 dated 13 January 2013 and the Guideline to appoint Consultants issued in the year 2007.	Contrary to the provisions of the Circulars, the service of the Estate Superintendent who had completed 60

		years of age had been extended as a consultant of the Board from the date of retirement instead of taking action to retire him and a sum of Rs.779,106 had been paid as allowances for a period of 07 months.
	(ii) Paragraph 9.9 of Circular No.PED/12 dated 02 June 2003.	The particulars relating to all payments made during one month as overtime allowances should be reported to the Board of Directors and the registers should be maintained including details thereon. Nevertheless, either reporting to the Board of Directors or maintaining respective registers had not been carried out.
(e)	Section 1.3.2 of the Government Procurement Guidelines	Even though, this Guideline should be adhered to every procurement activity without considering the source of funding, a sum of Rs.3,949,695 had been paid in the year under review for repairing of vehicles and repairing of factories deviating from the procurement procedure.
(f)	Public Finance Circular No.03/2015 dated 14 July 2015.	The advances granted in 09 instances in the year under review amounting to Rs.264,935 had not been settled within 10 days after completion of the purpose.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year ended 31 December of the year under review had resulted in a deficit of Rs.443,532,303 as compared with the corresponding deficit of Rs.413,342,667 for the preceding year, thus indicating a deterioration of Rs.30,189,686 in the financial results for the year under review as compared with the preceding year. The increase of operating gross loss by Rs.103,809,185 had mainly attributed for above deterioration even though the other revenue had increased by Rs.86,401,287.

3.2 Analytical Finance Review

Certain significant working capital ratios and profitability ratios are shown below.

	2015	2014
Current Assets Ratio	0.26:1	0.23:1
Quick Assets Ratio	0.24:1	0.19:1
Gross Profit Ratio	(73%)	(49%)

The following observations are made.

(a) Even through, a minor improvement had shown in the liquidity level of the Board due to utilizing grants received from the Treasury to settle statutory obligations in the year under review, liabilities over Rs.1.259 million which have specific statutory obligations had existed in the current liabilities.

(b) The gross loss of the Board had increased further and it was increased by 32 per cent in the year under review as compared with the year 2014.

4. Operating Review

4.1 Management Activities

The following observations are made

(a) The lease period of 21 lands out of the leased out lands belonging to the Board had ended by 31 December of the year under review and the lease period of 25 lands had ended by 31 December 2016. The Board had not taken action either to lease out these lands again or to acquire the leased out properties.

(b) Twelve employees of the Board had been deployed in the security service since the year 2013 for the Embilipitiya Paper Factory of the National Paper Corporation without entering into a written agreement. As the Paper Corporation had not paid over time allowances for the respective employees, the overtime allowances of Rs. 877,616 had been paid by the Board in the year under review to that employees. Since the National Paper Corporation had been administered under State Resources Management Corporation, the overtime allowance paid had been deducted from the amount payable to the above Corporation by the Board and adjustment also made in the financial statements. Nevertheless, no agreement had been entered into with the respective institution relating to that.

(c) Even though, the security services had been provided by the Board for the Ritigala Estate since the year 2010, the above estate had been encroached by 137 persons. No action whatsoever had been taken thereon by the management.

(d) Twenty buyers and 25 buyers who transacted with the Consumer Division of the Board in which carrying out packaging and sales of made tea, had lost to the Board in the years 2014 and 2015 respectively. Due to that, made tea sales income deprived by the Board amounted to Rs.4,504,758. Decline of the quality of tea, not following promotion activities for tea sales to meet the competition and weaknesses in loan management had attributed for above matters.

4.2 Transactions of Contentious Nature

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Green tea plucked in the Hanthana Estate in June and July months of the year under review.had been sold at less than the selling price of other months by Rs. 12.50 and Rs.10. As such, the loss incurred by the Board amounted to Rs.619,160.

4.3 Idle and Under – utilized Assets

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The following observations are made.

(a) The tea factories situated in the 5 estates belonging to the Board had remained idle by the end of the year under review. Even though, the machineries valued at Rs.7,639,107 had remained in those factories, those were allowed for decaying without taking action to utilize them.

(b) Action had not been taken to adjust depreciation for machineries and Equipment valued at Rs.1,394,815 purchased for the Water Bottles Project commenced during the year 2010 in the Hope Estate even from that year. However, the activities of the project had been abandoned in the year 2015 and as such the equipment had remained idle even by the end of the year under review.

4.4 Identified Losses

In leasing out a land again belonging to Williyamulla Estate, the taxes had not been recovered as per new assessment report. As such the revenue deprived by the Board from the year 2013 up to the end of the year under review had been Rs.3,388,350.

4.5 Operating Activities

Even though, the harvesting of cardamom should be 60 kilograms of dry cardamom per hectare, the harvesting of cardamom obtained from the cardamom cultivation in 08 hectares of Kandaloya Estate in the year under review had been only 68 kilograms. However, a sum of Rs.1,497,330 had been incurred for providing security for the cultivation and for harvesting in the year under the review.

4.6 Staff Administration

(a) Even though, a Recruitment and Promotion Procedure should be prepared in terms of Section 9.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, a proper Recruitment and Promotion Procedure had not been prepared for the Board.

Nevertheless, the promotions for the post of Security Officer had been given to 2 employees during the years 2015 and 2016.

(b) An officer had been recruited on contract basis for the post of Marketing Consultant which was not in Approved Cadre and a payment amounting to Rs.555,000 had been made for a period of 6 months in the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though, the annual accounts should be presented to the Auditor General within 60 days after the end of financial year in terms of Public Enterprises Circular No. PED/12 dated 03 June 2003, the accounts for the year 2015 had been presented by the Board only on 01 December 2016.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Accounting	Non-preparation of accounts in accordance with the Accounting Standards.
(b) Maintenance of Leased out Properties.	Deficiencies existed in leased out properties, recovery of leasing revenue and protection of properties.
(c) Payment Controls	To regularize the payments in Employees Provident Fund and Employees Trust Fund.
(d) Tea Plantation	Attention not paid to increase production and minimize production cost.