

Sri Lanka State Plantations Corporation – 2015

The audit of the operating activities of Sri Lanka State Plantations Corporation for the year ended 31 December 2015 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. The financial statements for the year 2015 that should be presented in terms of Section 13(6) of the Finance Act had not been furnished even by the date of this report. My observations which I consider should be presented to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 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.

2. Financial Statements

2.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the financial statements and the draft annual report should be furnished to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements and the draft annual report of the year 2015 had not been furnished to the Auditor General even by the date of this report.

2.2 Maintenance of Accounts Books and Registers

Even though the activities of the Corporation had been continuously maintained, the Books of Account and the Registers relating to the year under review had not been completed.

2.3 Existence of Assets and Liabilities

Details on assets, liabilities, income and expenditure stated in the financial statements for the year ended 31 December 2013 last prepared by the Corporation are as follows.

Assets -----	Value ----- Rs.
Non- current Assets	5,805,009,280
Current Assets	<u>161,866,142</u>
Total Assets	<u>5,966,875,422</u>
<u>Liabilities</u>	
Current Liabilities	1,179,046,151
Non- current Liabilities	<u>233,890,743</u>
Total Liabilities	1,412,936,894
Net Assets/ Title	<u>4,553,938,529</u>
Total Liabilities	<u>5,966,875,423</u>
Total Income	655,699,345
Total Expenditure	<u>873,483,759</u>
Deficit	<u>217,784,414</u>

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

The following instances non- compliance were observed.

Reference to Laws, Rules and Regulations

Non- compliance

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulations 104 and 110

The inquiry had been held by the Internal Auditor relating to the losses and damage occurred to the Galpeella Factory and the machines exceeding Rs.500,000 which had been damaged by a fire in the year 2013 and the responsible parties had not been determined in the report furnished relating thereto. Further, action such as conducting a preliminary inquiry on the damage relating to the destruction of a vehicle belonging to that Estate by the fire in the year 2013 and preparing a preliminary report, identifying the responsible parties and recording in the Register of Losses and Damage had not been taken.

- (b) Public Enterprises Circular No.01/2013 of 15 January 2013 Eighteen officers over 60 years of age in 8 Estates and 142 labourers over 60 years of age in 12 Estates had been deployed in service.

3. Operating Review

3.1 Performance

The following observations are made.

- (a) The finished tea harvest per hectare relating to 12 Estates administered by the Corporation in the year 2014 and in the year under review is given below.

Estate	Extent of Land (Hectare)	Finished tea harvest per hectare		
		2015 (kg)	2014 (kg)	Variance (kg)
Opalgala	104	605	633	(28)
Galpeella	235	641	629	12
Gomera	164	723	671	52
Rangala	215	698	549	149
Hagalla	251	584	596	(12)
Kellebokka	583	608	506	(102)
Hunnasgiriya	208	590	469	121
Alakolla	338	493	499	(6)
Midland	259	466	448	18
Harepark	192	214	274	(60)
Kotaganga	251	185	228	(43)
Nikolo oya	92	366	381	(15)
Total	<u>2,892</u>	<u>6,173</u>	<u>5,883</u>	

- (i) Even though the General Standard Finished Tea Harvest per hectare had been 1736.5 kilogrammes on average, it remained in a very low range from 185 kilogrammes to 723 kilogrammes in the year under review.
- (ii) Even though the finished tea harvest of the Corporation had increased by 5 per cent in the year under review as compared with the year 2014 as a total, that value had decreased by 15 per cent as compared with the year 2013. Further, the finished tea harvest of 5 Estates had

slightly increased as compared with the year 2014 and, the finished harvest in 7 Estates had decreased. As such, the efficiency and the effectiveness of the operating activities of the Corporation remained in a very low level.

- (iii) The finished tea production in the year 2014 had been 1,402,740 kilogrammes on average and it had increased by 8 per cent as compared with the preceding year due to it being 1,511,788 kilogrammes in the year under review. However, it had failed to achieve the targeted production of the year under review, amounting to 2,275,935 kilogrammes.
- (iv) Even though the standard amount of finished tea that should be annually produced by 2,892 hectares, the extent of lands in which tea had been cultivated, of the Corporation should be 5,023,695 kilogrammes, only 1,511,788 kilogrammes or 30 per cent of it had been produced.
- (b) The information on the extent of lands provided to the external planters and the finished tea production obtained in 2014 and in the year under review is given below.

Name of the Estate	<u>2015</u>		<u>2014</u>	
	Extent of Land ----- (Hectare)	Finished Tea Product ----- (kg)	Extent of Land ----- (kg)	Finished Tea Product ----- (kg)
Alagolla	56	6,384	56	6,765
Kotaganga	202	9,422	267	26,974
Gomera	76	7,841	76	12,633
Hagalla	130	13,278	134	17,662
Harepark	156	23,244	17	32,529
Hunnasgiriya	17	1,750	144	1,960
Kellebokka	128	23,740	128	15,282
Midland	27	2,742	27	3,030
Nikolo oya	40	1,632	40	2,090
Opalgala	52	1,825	52	1,717
Rangala	110	21,344	110	31,957
Total	<u>994</u>	<u>113,202</u>	<u>1,051</u>	<u>152,599</u>

The following observations are made.

- (i) The production had decreased by 39,397 kilogrammes or by 26 per cent due to the finished tea production in the year under review being 113,202 kilogrammes as compared with the finished tea production of 152,599 kilogrammes relating to the raw tea leaves supplied in the year 2014 by the external planters.
- (ii) Even though the quantity of finished tea that should be annually produced by the extent of 994 hectares of land belonging to the Corporation maintained by the external planters in the year under review should have been 1,727,818 kilogrammes, only 7 per cent of that had been

produced. As such, a maximum effectiveness could not be obtained due to not being subjected to a proper supervision of the management on the extent of lands provided to external parties by the Corporation and necessary action for the improvement of it had not been followed.

- (c) Thirteen Estates had not achieved their estimated production targets in the year under review and the actual production of 5 Estates remained at a level of 50 per cent of the targeted production.
- (d) The Cost of Production and the Normal Sales Average per one kilogramme of tea of the Estates administered by the Corporation in 2014 and in the year under review are as follows.

Name of the Estate	Cost of Production	2015	Contribution	Cost of Production	2014	Contribution
		Normal Sales Average			Normal Sales Average	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Alakolla	382	252	(130)	345	270	(75)
Kotaganga	653	242	(411)	659	287	(372)
Galpeella	332	252	(80)	317	269	(48)
Gomera	394	241	(153)	355	265	(90)
Hagalla	394	238	(156)	353	284	(69)
Harepark	588	241	(347)	410	264	(146)
Hunnasgiriya	392	251	(141)	408	267	(141)
Kellebokka	454	232	(222)	536	311	(225)
Midland	537	265	(272)	507	328	(179)
Nikolo oya	459	259	(200)	442	327	(115)
Opalgala	386	267	(119)	349	332	(17)
Rangala	450	243	(207)	461	277	(184)
Walahandoowa	354	230	(124)	337	259	(78)

It was observed that there is a production cost exceeding the Average Sales Price per kilogramme of tea of every Estate of the Corporation. Further, the production cost of other Estates excluding four Estates had increased as compared with the year 2014 and the contribution of every estate had taken a negative value due to the decrease of the Average Sales Price.

(e) The Cost of Production and the Normal Sales Average per kilogramme of rubber latex of the Walahandoowa Estate administered by the Corporation relating to the year 2015 are as follows.

Year	Yield	Normal Sales Average	Cost of Production	Profit/ (Loss)	Other Income
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Rs.	kg	Rs.	Rs.	Rs.	Rs.
2010	50,165	364	206	7,971,169	758,257
2011	49,333	469	240	11,318,050	5,011,601
2012	39,219	378	289	3,405,404	352,698
2013	44,863	344	325	845,665	1,238,855
2014	40,741	259	337	(3,097,683)	295,148
2015	36,810	231	354	(4,513,701)	2,506,047

The following observations are made.

- (i) The profit of Rs.7,971,169 in the year 2010 had deteriorated by 157 per cent within 5 years to a loss of Rs.4,513,701 in the year under review. Attention had not been paid by the Top Level Management on the decrease of the rubber yield by 27 per cent and on the increase of the production cost per kilogramme of rubber by 72 per cent.
- (ii) The number of trees which had exceeded 25 years of age had been 9,700 and it had been 50 per cent of the total number of trees. All trees had exceeded 19 years after year 1996 and only 1040 rubber trees had been newly planted in the year 2010.
- (iii) Even though the estimated number of seedlings that should generally exist in a hectare in the Walahandoowa Estate should be 33,150, the number of seedlings had been 20,558 or 62 per cent.
- (f) Even though the Average Rubber Production in a hectare in Sri Lanka in the year 2014 had been 914 kilogrammes, the Average Rubber Production remained at a low level as 547 kilogrammes due to the actual production obtained from the Walahandoowa Estate in the year under review being 35,582 kilogrammes.

3.2 Management Activities

The following observations are made.

- (a) A sum of Rs.611,284 had been paid as salaries for a period of 74 months from 17 June 2003 to 05 October 2009 to an officer of the institution without obtaining her services without justifiable reasons during that period, due to the negligence of the Top Level Management of the Institution.
- (b) A sum of Rs.2,246,094 had been spent for the execution of the procurement activities relating to the removal of the waste materials of the Alakolla Tea Factory destroyed by the fire on 25 May 2012 and for deploying watchers for protecting waste materials. Even though over three years had been taken for those activities up to date, the Procurement process had not been completed. In view of the deterioration of the waste materials in the future, the risk of the Corporation being deprived of the recovery of at least the money spent exists. The attention of the management had not been paid for the expenditure involved in providing security.
- (c) A sum of Rs.1,130,077 had been paid in the year 2014 and up to October of the year under review as salaries for the watchers deployed for the protection of the waste materials of the Galpeella Tea Factory destroyed by the fire on 07 June 2013 due to the failure to take action for their removal.

3.3 Operating Activities

The following observations are made.

- (a) A test check carried out in August 2015 revealed that additional expenditure on factory electricity, salaries and other expenses had to be incurred as the production process of 9,011 kilogrammes of tea produced by the Midland Factory had to be duplicated due to the machine inefficiency.
- (b) The existence of 31,770 kilogrammes of Bulk Tea valued at Rs.7,412,230 at the Kellebokka Tea Factory had been revealed at the physical check carried out by the Internal Audit on 4 September of the year under review. It was observed in audit that it is not appropriate to retain stocks of tea when the institution is undergoing a severe financial crisis.
- (c) Even though sums of Rs.1,918,507 and Rs.59,410 had been spent from the year 2011 to the year under review for the ground preparation for new cultivation of rubber seedlings and the cultivation of 250 pepper seedlings respectively, the seedlings had not been planted.

3.4 Staff Administration

Action had not been taken to obtain the approval of Department of Management Services for the staff and the Scheme of Recruitment of the Corporation.

4. Accountability and Good Governance

4.1 Internal Audit

Even though it had been planned to cover 14 Estates, the Regional Office and all Divisions of the Head Office according to the Annual Internal Audit Plan, only 5 Estates and 2 Divisions of the Head Office out of that had been examined. As such, the Internal Audit Unit had not taken action to achieve its planned targets.

5. Systems and Controls

The 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) Control of Registers	Not maintaining source registers properly.
(b) Budgetary Control	Not achieving the budgeted targets.
(c) Operating Control	Non- use of technical tools and processes relating to the improvement of the performance.
(d) Internal Audit	Not implementing the Internal Audit Plan as expected.