

## **Sri Lanka Tea Board - 2015**

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The audit of financial statements of the Sri Lanka Tea Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of income and expenditure, 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 the Section 13(1) of the Finance Act, No.38 of 1971 and Section 15(1) of the Sri Lanka Tea Board Act, No.14 of 1975. 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**

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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**

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

### **1.4 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Sri Lanka Tea Board as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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##### **(a) Sri Lanka Accounting Standard 01**

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The following observations are made.

- (i) Even though the required disclosures should be made in the financial statements for the fair reflection of the financial position, the financial performance and the cash flow, the required disclosures had not been made in connection with the adjustments of Rs.8,246,798 and Rs.10,243,284 made to the accumulated profits in the statements of changes in equity in respect of the year under review and the preceding year respectively.
- (ii) Even though the assets and liabilities should not be set off against each other except in the instances so allowed under a Sri Lanka Financial Reporting Standards, the overdrafts of two Bank Current Accounts amounting to Rs.2,280,808 had been set off against the cash and Bank balances amounting to Rs.145,540,846 and the net value had been disclosed in the financial statements.
- (iii) Even though the nature and the value of the material items of income and expenditure should be separately disclosed, the required disclosures relating to the financial income of Rs.9,262,257 shown in the statement of income and expenditure had not been made.
- (iv) The accounting policy for the manner of accounting for the Revaluation Reserve, the Government Grants and the Financial Expenditure had not been disclosed in the financial statements.

#### **2.2.2 Accounting Policies**

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Even though the interest income on the investments of the Promotion and Marketing Fund amounting to Rs.132,909,000 had been brought to account as the income of the Tea Board for the year under review, the accounting policy relating to that had not been disclosed.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) An agreement for a sum of US\$ 2,260,000 had been entered into with a private company for the media activities under the Sri Lanka Tea Global Promotion Programme and an advance of Rs.65,684,615 had been granted in the year under review. That amount had been brought to account as expenditure of the year under review, instead of being brought to account as an advance. As such, the balance of the Promotion and Marketing Fund had been understated by that amount.
- (b) The stock of Cricket T Shirts with the Board as at the end of the year under review had been overstated by a sum of Rs.310,250.
- (c) T Shirts valued at Rs.1,319,200 sent to the Regional Office for sale had been returned without being sold. That value had been brought to account as Sri Lanka Cricket Sponsorship and other Promotional Expenditure. As such that expenditure for the year under review had been overstated by that amount.
- (d) Out of the sum of Rs.6,738,000,000 received from the Government to maintain the minimum price per kilogramme of Green Tea Leaf at Rs.80 during the year under review, a sum of Rs.6,673,590,662 had been spent. Nevertheless, the entire amount had been brought to account as expenditure. As such, the expenditure on subsidy and the current liabilities had been overstated by a sum of Rs.64,409,338.
- (e) Rental payable amounting to Rs.50,000 in respect of the year under review had not been brought to account.

#### **2.2.4 Unexplained Differences**

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Even though the Cash and Bank balances of the Board's Office in the United Arab Emirates as at the end of the year under review had been shown as Rs.2,178,780 in the final accounts, according to the confirmation of balances, that amounted to Rs.577,411. As such a difference of Rs.1,601,369 was observed.

#### **2.2.5 Accounts Receivable and Payable**

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Action had not been taken to settle the green tea suppliers' deposits totalling Rs.8,498,784 existing from the year 2006 and the balances totalling Rs.305,240 brought forward in the accounts for 3 years.

The schedules for the advances for promotion and publicity charges received in advance amounting to Rs.34,305,957 as at the end of the year under review and the invoices for the purchase of tea amounting to Rs.323,353 had not been furnished to audit.

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

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The following instances of non-compliance were observed during the course of audit.

**Reference to Laws, Rules and Regulations  
and Management Decisions**

**Non-compliance**

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| -----<br>(a) Section 49 of the Tea Control Act, No.51 of 1957 and Section 25(3) of the Sri Lanka Tea Board Act, No.14 of 1975 | The fees for the registration of Tea Factories, the fees for renewal of registration, the fees for registration of Tea Exporters, etc. had been increased with effect from 29 July 2010 by the Board without obtaining the approval of the Cabinet of Ministers and publication in the Gazette of the Democratic Socialist Republic of Sri Lanka in terms of the Acts. |
| (b) Sections 13 and 14 of the Sri Lanka Tea Board Act, No.14 of 1975  | The provisions in the Act had not been amended for the establishment and operation of the Cess Fund.   |
| (c) Financial Regulation 757(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka                | Even though the physically non-existence of fixed assets valued at Rs.15,515,659 included in the accounts as at the end of the year under review had been identified at the Annual Board of Survey, action in terms of the Financial Regulations had not been taken.   |
| (d) Guideline 8.9.1(b) of the National Procurement Guidelines-2006  | Even though the Guideline requires entering into a formal agreement when goods valued over Rs.500,000 are purchased, action in accordance therewith had not been taken in connection with the purchases totalling Rs.4,935,595 made in 04 instances.   |
| (e) Public Finance Circular No.02/2015 of 10 July 2015  | Even though the income from the sale of motor vehicles should be credited to the Consolidated Fund, action in accordance therewith had not been taken on Rs.1,421,750 received from the sale of motor vehicle during the under review.   |

**2.4 Transactions not covered by Adequate Authority**

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The staff of the Tea Export Branch had been paid allowances amounting Rs.2,056,844 during the year under review, considering the keeping of the Tea Export Branch open beyond the duty hours as a special duty solely on the approval of the Board of Directors, without obtaining the Treasury approval.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Board for the year under review amounted to a surplus of Rs.86,256,974 as compared with the corresponding surplus of Rs.31,222,572 for the preceding year, thus indicating an improvement of Rs.55,034,402 in the financial result for the year under review as compared with the preceding year. Even though the expenditure on the Tea Replanting Subsidy and the administration had increased by Rs.41,880,997 and Rs.67,786,559 respectively in the year under review, the increase of Treasury grants by Rs.32,000,000 and the addition of Rs.132,909,000 from the interest income of the Promotion and Publicity Fund to the income had been the main reasons for the above improvement.

An analysis of the financial results of the year under review and the 4 preceding years indicated that financial surpluses had been resulted in all other years except the year 2012. Accordingly, an improvement in the Surplus from the year 2013 to the year 2015 was observed and as compared with the year 2014, the improvement in the year under review had been 167 per cent. Nevertheless, in taking into account the employees emoluments and the depreciation on the non-current assets, the contribution of the Board had been a favourable value from the year 2011 up to the year under review and continuously improved up to the year 2013. Even though it had recorded a negligible 2 per cent decrease in the year 2014, it had improved again by 45 per cent in the year under review.

#### **3.2 Analytical Financial Review**

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The current ratio is of the year under review and the preceding year had been 17.1 and 17.8 respectively, thus indicating the existence of a very high working capital. In addition 86 per cent of the total current assets had been employed in short term investments.

#### **3.3 Legal Actions Instituted against or by the Board**

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The following observations are made.

(a) The landlord of a building used by the Tea Commissioner's Division had made a claim against the Board for a sum of Rs.4,900,000 in October 2008 for the damage caused to the building and the inability to rent out the building to another party as it was not possible to restore the building to the normal condition due to the damage and appointed an Arbitrator. An order had been made that a sum of Rs.13,828,600 should be paid by 14 November 2014. Nevertheless, the Board had lodged an appeal against the decision.

(b) Four external institutions had filed 4 cases in Courts, against the Board.

## **4. Operating Review**

### **4.1 Performance**

The objectives of the Board in terms of Sub-sections (1) and (2) of Section 4 of the Sri Lanka Tea Board Act, No.14 of 1975 as amended by the Sri Lanka Tea Board (Amendment) Act, No.29 of 2003 are as follows.

- To regulate the production and cultivation of new areas in tea, the planting of existing estates and small holdings with high yielding material, the rehabilitation of estates and small holdings, the diversification of estates and small holdings by the establishment of and operation of livestock industries, and the replacement of tea on such estates and small holdings by other crops.
- To regulate the establishment and operation of tea factories and to regulate the conduct of tea auctions.
- To assist and the encourage the marketing of tea in and outside Sri Lanka, to regulate the sale of tea, the export of tea and the arrangement and payments relating to shipping, freight, brokerage, warehouse or any other charges incurred in the sale of tea abroad.
- To regulate, control and direct all institutions and organizations engaged in the management of tea estates and in the production and marketing of tea.
- To provide the necessary liaison between the tea industry and the departments of Government or State Corporations, in order to promote and co-ordinate action for the development of tea industry in Sri Lanka.

The following observations are made in connection with the achievement of the above objectives.

- (a) According to the Notification on Tea Promotion and the Market Strategies published in the Gazette No.1677/14 dated 27 October 2010, plans had been made for the implementation of the Global Promotion of Ceylon Tea Programme during the years 2015 – 2018 by utilizing a sum of Rs.5,927 million earned by the Board from the Tea Exporters from 01 November 2010 to 31 December 2015 and the balance up to Rs.8 billion expected for collection during the 3 ensuing years from the levy so imposed.

The following observations are made in this connection.

- (i) As 91 per cent to 94 per cent of the total tea production of Sri Lanka during the past 5 years had been exported, the formulation of a programme for tea promotion involving such large amount of money is not productive.
- (ii) As the cost of production per kilogramme of tea exceeds the sale price per kilogramme of tea sold at the Colombo Tea Auctions at present, the utilization of such money for the minimization of the cost of tea production and the improvement of the quality of tea would be more economical rather than planning for improvement of sale price of tea by creating a higher demand through promotion.

- (iii) Even though the doubling of the Lion Brand Tea production and the development of the value added tea production by 40 per cent to 55 per cent are the objectives by the end of the Tea Promotion Programme, the Board should give priority for taking adequate courses of action for the development of tea production subject to a gradual decreasing trend.

In view of the above matters it was observed in audit that obtaining approval for suitable policy decisions for taking action for the utilization of such money for the identification of the problems prevailing in the tea industry at present and for finding solutions for those problems will be prudent, economical and productive.

- (b) The Board had received a sum of Rs.6,738,000,000 for the year under review from the Government under the Subsidy Programme for the payment of a minimum price of Rs.80 per kilogramme of green leaf. The following observations are made in this connection.

- (i) According to the Circular No.MF/BL/66 dated 02 October 1985 of the Tea Commissioner, the factory owners should pay at least reasonable price per kilogramme of green leaf computed according to the circular. The audit test check revealed that the factory owners had earned a gain of Rs.28,837,190 due to the payment of the price determined on the reasonable price and the recommended price instead of the payment of the difference between the price paid per kilogramme of green leaf and the price determined on the recommended price.

- (ii) The audit test check revealed that the owners of green leaf had made complaints to the Regional Offices about the non-payment of the subsidy sent to the Tea Factories to the Tea Smallholders as specified and that the subsidy had been paid to the owners of estates exceeding 10 acres in extent.

- (c) Even though plans had been made to create an awareness among 500 representatives under the Post – harvest Damage Minimisation Programme implemented with the objective of increasing the production capacity, it was observed in audit that none of the programmes had been implemented.

#### **4.2 Management Activities**

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The following observations are made.

- (a) The Janatha Estate Development Board and the Sri Lanka Tea Board had decided at the meeting of the Committee on Public Enterprises held on 19 June 2012 for the write off of the balance of Rs.25,000,000 remaining receivable from the Janatha Estates Development Board over a period exceeding five years and to acquire the ownership of the “Ceylon Tea Museum” belonging to the Janatha Estates Development Board situated at Hantana. Nevertheless, this process had not been finalized even by 30 June 2016.
- (b) A stock of 3,732 T Shirts valued at Rs.4,354,750 purchased according to the sponsorship agreement entered into with the Sri Lanka Cricket in the year 2014 remained in the stores

even by the end of the year under review without being sold. The Board had failed to sell these T Shirts without incurring a Loss.

#### **4.3 Operating Activities**

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The Tea House established at the Colombo Race Course Building at a cost of Rs.58,368,794 in the year 2013 with the objective of popularizing tea among the foreigners visiting Sri Lanka had incurred losses amounting to Rs.19,686,253 and Rs.13,509,198 in the year under review and the preceding year respectively. It was observed in audit this project commenced as a tea promotion activity had not been subjected to a feasibility study. The Board had not taken a formal course of action to minimize such large losses incurred by the Centre maintained by incurring such losses.

#### **4.4 Procurement Process**

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According to the Procurement Plan for the year under review, estimates had been prepared for Rs.199,780,000 for Capital Expenditure including the acquisition of fixed assets. Even though a sum of Rs.70,500,000 for the construction of the Nuwara Eliya District Office and the Tea House, Rs.14,500,000 for carrying out repairs to the Auditorium and Rs.56,000,000 for the purchase of 5 motor vehicles were expected to be spent during the year under review, it was observed in audit that those procurements had not been executed.

#### **4.5 Idle and Underutilized Assets**

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Balances amounting to Rs.93,919 in 3 foreign Bank Accounts of the Board had been idling over periods ranging from 01 year to 03 years.

#### **4.6 Lands and Buildings not Transferred Formally**

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Even though the Regional Office Building Bandarawela costing Rs.7,122,915 constructed prior to the year 2007 had been recorded in the Register of Fixed Assets, action had not been taken even up to the date of this report to effect the transfer the title of the land on which the building is situated in favour of the Board.

#### **4.7 Staff Administration**

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The following observations are made.

- (a) The approved and the actual cadre of the Board had been 308 and 277 respectively and 44 posts in the Senior, Tertiary and Secondary levels and 08 posts in the Primary level of the Board had been vacant. Eleven officers had been deployed in 02 Senior Level posts, one Tertiary Level post and 04 Secondary Level posts which are not included in the approved staff.
- (b) Appointments to two posts of Management Assistant had been made outside the approved staff on contract basis for one year with effect from 15 June 2015 at a monthly allowance of Rs.34,000. The approval for that had not been obtained from the Department of Management Services and allowances totalling Rs.408,000 had been paid by the end of the year under review.



## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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Even though Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 specifies that the Accounts together with a Draft Annual Report should be presented to the Auditor General within 60 days after the closure of the financial year, the Accounts for the year under review had been presented only on 10 June 2016, that is, after a delay of 102 days.

### **5.2 Internal Audit**

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Even though an Internal Audit Unit has been established in the Board, adequate staff had not been attached thereto.

### **5.3 Budgetary Control**

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Significant variances ranging from 12 per cent to 150 per cent were observed between the budgeted and the actual amounts thus indicating that the budget had not been made use of as an effective instrument of management control.

## **6. Systems and Controls**

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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.

<b>Areas of Systems and Controls</b>	<b>Observation</b>
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(a) Accounting	Existence of delays in presenting Accounts
(b) Staff Administration	Recruitment to posts not included in the approved staff
(c) Balances Receivable and Payable	Existence of balances to be recovered and for settlement over long periods
(d) Budgetary Control	Significant variances observed between the budgeted and the actual amounts