

Tea Small Holdings Development Authority - 2015

The audit of financial statements of the Tea Small Holdings Development Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 the 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

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 judgment, including the assessment of the risks of material misstatement 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 audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Tea Small Holdings Development Authority as at 31 December 2015 and its financial performance and its 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 non-compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard 02

- (i) In the computation of the cash generation from the operating activities of the year under review, the deferred income relating to the adjusted amount of ammonization of Rs.8.6 million made for the property, plant and equipment acquired from the Government Capital Grants had not been taken into consideration in the preparation of the cash flow statement.

- (ii) A sum of Rs.650 million received by the Authority as the Government Capital Grants and the investment activities of Rs.561.5 million spent as development expenditure of the year under review had not been disclosed through the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard 07

Fully depreciated assets costing Rs.22,86 million had been in further use due to the failure to review the effective life of non-current assets annually. As such, action had not been taken in accordance with the Sri Lanka Public Sector Accounting Standard 03 for the revision of the estimated error.

2.2.2 Accounting Policies

The rate of depreciation of training equipment and machinery had not been disclosed in the accounting policy relating to the property, plant and equipment.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The unspent balance amounting to Rs.72.1 million out of the Capital Grant of Rs.633.6 million received during the year under review had been added to the operating result and

as such, the operating deficit of Rs.28.7 million of the year under review had been converted to a surplus of Rs.43.4 million.

- (b) The provision for gratuity as at 31 December of the year under review had been understated by a sum of Rs.1.23 million.
- (c) Provision had not been made in the accounts for the underpayment of Rs.0.27 million made due to a computation error made in the payment of the pension gratuity to an officer of the Uva Sub-office during the year under review.

2.2.4 Unexplained Differences

Non-reconciliations totalling Rs.2.8 million relating to 7 balances of accounts were observed in the comparison of the statement of financial position as at 31 December of the year under review with the schedules.

2.2.5 Accounts Receivable and Payable

The value of debtors older than 05 years as at the end of the year under review amounted to Rs.20.72 million and that represented 72 per cent of the total debtor balances receivable. The balance older than 05 years included a sum of Rs.7.69 million on account of the 102 Motor Vehicles supplied on Credit basis to the Small Holder Tea Estates Development Societies.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2015 had been a surplus of Rs.43.4 million as compared with the corresponding surplus of Rs.106.1 million for the preceding year. The financial result for the year under review, as compared with the preceding year, indicated a deterioration of Rs.62.7 million. Even though the operating income of the year under review had increased by a sum of Rs.218.3 million, the increase of development expenditure, wages and other expenditure by a sum Rs.267 million had been the main reasons for this deterioration.

An analysis of the financial results of the year under review and 5 preceding years revealed that despite the deficits for the years 2011 to 2013, surpluses had been shown in years 2014 and 2015. In taking into account the employees remuneration, Government Taxes and the depreciation on the non-current assets, the contribution of the Authority from the year 2011 to the year 2015 had increased continuously as Rs.150.11 million, Rs.55.57 million, Rs.28.97 million, Rs.354.52 million and Rs.355.54 million respectively.

3.2 Analytical Financial Review

According to the statement of financial position presented the current ratio of the Authority for the years 2015 and 2014 had been 1.42 and 1.08 respectively and 56 per cent of the current assets represented cash and cash equivalents.

4. Operating Review

4.1 Performance

According to Section 14 of the Tea Small Holdings Development Authority Act, No.35 of 1975 as amended by the Tea Small Holdings Development Authority (Amendment) Act, No.34 of 2003, the objectives of the Tea Small Holdings Development Authority are as follows.

- To promote or to undertake the Development of Tea Small Holders and other tea holdings which do not possess their own means of manufacture.
- To acquire or develop tea factories and other facilities required for the manufactures of the produce of such factories on such tea lands and to promote or to undertake the marketing of the produce of such factories or such tea lands.
- To take action for the welfare of the tea small holders and to promote the investments in tea small holdings.
- To advise the Ministry on the appropriate policies and Co-ordinate with other relevant agencies.

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

- (a) According to the information obtained by the Audit, the total tea production of Sri Lanka for the year under review had been 328.96 million kilogrammes and out of that, the Contribution of the Tea Small Holders had been 239.86 million kilogrammes or 72.91 per cent. The total tea production of Sri Lanka for the preceding year had been 338.03 million kilogrammes and the contribution of the Tea Small Holders to that had been 247.38 kilogrammes, or 73.18 per cent. As such, the contribution of the Tea Small Holders for the year under review had decreased by 7.5 million kilograms or 0.27 per cent.
- (b) The progress of the expenditure increased as compared with the subsidy of Rs.561.5 million made for the year under review in respect of the development activities such as replanting and new planting of tea, the extension services and social development and the institutional strengthening had been as follows.
 - (i) According to the Annual Report of the Authority, replanting 2 per cent of the existing extent of the lands under Tea Small Holdings is the national policy. Nevertheless, according to the Performance Report of the Authority, that value in respect of the year under review had been only 0.67 per cent.
 - (ii) According to the Action Plan for the year under review, the new tea planting had been 453 hectares while lands 479 hectares had been completed according to the Performance Report. As such the expected target had been achieved. Nevertheless, the subsidy per hectare payable in the year under review had been increased from Rs.250,000 to Rs.400,000 and the total subsidy paid had been Rs.128.12 million. Even though that subsidy, as compared with the preceding year had been increased by 91 per cent, the new planting of tea as compared with the preceding year had indicated only a minor improvement of 19 per cent.

- (iii) Even though 47,480 person had been targeted for the year under review for the conduct of awareness programmes, training of tea pluckers and making an awareness of the quality of green leaf among the Tea Small Holders for the improvement of the quality of green leaf up to 60 per cent for the purpose of obtaining a higher market price for tea, only 38,784 or 81 per cent had participated.
- (iv) Even though plans had been made for testing of 26,430 samples of soil for the measurement of the soil acidity of the tea lands, only 22,246 samples of soil had been tested and 16 per cent of the samples targeted had not been tested.
- (v) According to an analysis of the profitability of 08 Tea Nurseries the gross profit for the year under review, as compared with the preceding year, had increased by a considerable amount. Even though the maintenance of a sales level of 85 per cent had been expected for the maintenance of the Tea Nurseries at a high profitability, such expected targets had been achieved only by the Hantana Tea Nursery.

4.2 Management Activities

 The following observations are made.

- (a) The Regional Office of the Authority at Gampola is being maintained in a building procured on rent basis over a period of 30 years approximately and Rs.671,000 had been paid for that in the year 2015. Even though the Divisional Secretary, Uda Palatha informed on 17 September 2014 that a block of land 40 perches in extent can be allocated for the construction of the building for this Regional Office, action had not been taken even up to the date of audit for effecting the transfer of that block of land.
- (b) Differences totalling Rs.92,776 was observed due to the failure to take the balances according to the cash books for the preparation of the Bank Reconciliation Statements relating to 06 Bank Accounts. Action had not been taken for the identification of the differences.
- (c) Action had not been taken even up to the end of the year under review to effect the transfer of the title of lands and buildings valued at Rs.81.5 million including employees quarters and tea lands of four Rejoined Offices, in favour of the Authority.
- (d) Action had not been taken to transfer the title in favour of the Authority and account for the Walahanduwa Sub-office and the Nursery and the Mother Cultivation Extension Centre, Akmeemana of the Regional Office, Galle.

4.3 Underutilisation of Funds

 The following observations are made.

- (a) Out of the sum of Rs.19.88 million received as at 31 December 2014 under the Divineguma Programme for the development activities such as the new planting and replanting of tea, pepper cultivation and planting of voids in tea lands, a sum of Rs.8.33

million had been saved by the end of the year under review without being utilized for the relevant activities.

(b) Out of the sum of Rs.795.47 million received by the Head Office and the Regional Offices in the years 2014 and 2015 for the Soil Assistance Project, a sum of Rs.68.97 million had been saved without being utilized for the relevant activity.

(c) Out of the sum of Rs.633.6 million received as Government grants in the year under review for development activities, a sum of Rs.72.1 million had not been utilized for the relevant development activities.

4.4 Idle and Underutilised Assets

The following observations are made.

(a) Nine official quarters belonging to the Authority remained idle over a period exceeding 5 years without being used.

(b) Two motor vehicles and one motor cycle had been idling for over one year without being repaired.

4.5 Staff Administration

According to the information made available by the Authority, the approved cadre and the actual cadre as at 31 December 2015 had been 422 and 403 respectively. In addition, the excess cadre of the Authority as at that date had been 34 and the Department of Management Services had approved those as applicable privately only for the holders of such posts.

The following observations are made in this connection.

(a) The posts of the Deputy General Manager (Development) the Manager (Development) and the Manager (Training) as at 31 December 2015 and the Manager (Human Resources and Administration) since the year 2010 had been vacant.

(b) According to the Annual Report of the Authority, the number of tea farmers per Extension Officer for an effective extension service is 1:1000. Nevertheless, in view of the existing 26 vacancies in the posts of Extension Officer, that ratio of 1:2742 that prevailed in the preceding year had increased to 1:2748 in the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented for audit, within 60 days from the close of the year of accounts. Nevertheless, the financial statements for the year under review had been presented for audit only on 31 March 2016.

5.2 Internal Audit

Even though the Internal Audit Division had issued 18 inspection reports including the observations made during the year under review, the management had not taken action on 15 of those inspection reports. The decision taken by the Board of Directors on 5 Internal Audit Reports issued in the years 2015 and 2014 had not been implemented.

5.3 Procurement Plan

Adequate estimates had not been prepared for the items proposed for procurement while plans for construction works on lands without legal title had been included in the Procurement Plan.

5.4 Budgetary Control

Variations ranging from 4.79 per cent to 100 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

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.

Areas of Systems and Controls

Observation

(a) Staff Administration

Existence of Vacancies in posts.

(b) Financial Controls

Failure to identify and account for the money remitted direct to the Bank, the payment of advances exceeding the limits and non-utilisation of the money received for the payment of subsidy.

(c) Assets Control

Failure to effect formal transfer of assets and idling of assets.