Janatha Estates Development Board – 2016

The audit of financial statements of the Janatha Estates Development Board for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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. 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Board on 12 January 2018.

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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis 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 Board

The net assets and the working capital of the Board had taken negative values of Rs.340,140,366 and Rs.1,845,703,984 as at 31 December 2016 respectively due to 23 estates belonging to the Board running at a loss and the excessive amount of statutory liabilities payable. Accordingly, the deterioration in net assets and the working capital was 37 per cent and 5 per cent respectively as compared with the preceding year and it was observed that the going concern of the Board is uncertain without further assistance from the Treasury or other financial assistance from the Government.

2.2.2 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 01

Even though a provision of Rs.857,604 had been made as doubtful debts out of the debtors' balance of Rs.13,002,883 in the consumer division, only the net value of Rs.12,145,279 had been shown in the financial statements without disclosing it by notes.

(b) Sri Lanka Accounting Standard 07

(i) In terms of paragraph 20 of the Standard, the expenditure on surcharge relating to statutory payments amounting to Rs.196,480 unpaid by cash in the year under review, had not been adjusted to the loss before tax in the cash flow statement as a non-cash item.

(ii) Interest income of Rs.71,130 received in cash relating to the year under review should be deducted from the loss before tax and shown as a cash inflow under investment activities. However, it had been added to the loss before tax and shown.

(iii) Even though loans amounting to Rs.16,443,117 had been settled in the year under review for bank loans obtained from a State commercial bank, it had been shown as a cash outflow of Rs.15,150.616 under financial activities in the cash flow statement. As such, cash outflows had been understated by Rs.1,292,501.

(iv) According to financial statements, provisions for gratuity and gratuity paid in cash amounted to Rs.44,685,417 and Rs.9,383,451 respectively. However, as they had been shown in the cash flow statement as Rs.40,639,179 and Rs.8,425,958, the cash flow generated from operations had been understated by Rs.3,088,745.

(v) According to financial statements, provision for employees' bonuses on attendance and the allowance paid in cash amounted to Rs.3,277,158 and Rs.3,106,081 respectively. However, those sums had been indicated as Rs.2,372,806 and Rs.2,979,183 respectively in the cash flow statement. As such, the cash flow generated from operations had been understated by Rs.435,300.

(vi) Expenditure on depreciation and amortization amounting to Rs.32,290,549 relating to the year under review had been adjusted in the cash flow statement as Rs.32,732,929. As such, the cash flow generated from operations had been understated by Rs.442,380.

(vii) The non-financial expenditure of Rs.18,218,710 transferred from immature biological assets to mature biological assets in the year under review had been indicated as a cash outflow under field development expenditure in the cash flow generated from investment activities.

(viii) The expenditure incurred for purchase of fixed assets and for work-in- progress of capital relating to the year under review amounted to Rs.2,125,980. Nevertheless, in preparing the cash flow statement, it had been indicated as Rs.20,805,107 and as such, the cash flow generated from investment activities had been understated by Rs.18,679,127.

(ix) Subsidies amounting to Rs.2,127,249 received in the year under review from the Rubber Development Department had been indicated in the cash flow statement as Rs.2,400,224. As such, the cash inflows from investment activities had been overstated by Rs.272,975.

(c) Sri Lanka Accounting Standard 16

(i) Amortization had been made exceeding the specified value for Mature Plantation vested costing Rs.17,925,625 since the year 2011. As such, amortization totalling Rs.594,554 had been overstated as at 31 December of the year under review.

(ii) In terms of paragraph 55 of the Standard, depreciation of an asset begins when it is available for use. However, provision for depreciation had not been made from the year 2011 up to the year under review relating to Other Vested Assets costing Rs.8,699,304 existed at the instance of establishment of the Board and revaluation as well had not been carried out.

(iii) Even though the stores and office buildings of the Board located at No.320, Darley Road had been shown as Rs.129,630 in the financial statements, action had not been taken to revalue them and account the fair value thereof.

(d) Sri Lanka Accounting Standard 32

In terms of paragraph 15 of the Standard, financial assets should be indicated in the statement of financial position under a separate heading. However, financial assets totalling Rs.3,651,833 had been shown under accounts receivable.

(e) Sri Lanka Accounting Standard 39

In terms of paragraph 09 of the Standard, financial assets should be adjusted to the fair value. However, the Board had not made the relevant adjustments.

(f) Sri Lanka Accounting Standard 41

(i) An actuarial valuation had not been carried out to obtain the value of plants with a commercial value. As such, the value of consumable biological assets had not been identified through accounts.

(ii) The cost incurred for immature timber plantations valued at Rs.21,041,223 had been capitalized under inter crops instead of recording under immature consumable biological assets.

2.2.3 Accounting Policies

The period of changing from immature plantation to mature plantation for inter crop plantation had not been specifically revealed by accounting policies. As such, the expenditure of Rs.19,881,889 capitalized relating to those plantations as at 31 December of the year under review could not be recorded under mature plantations.

2.2.4 Accounting Deficiencies

The following observations are made.

(a) Depreciation relating to mature plantations had been under computed by Rs.82,143,685 up to 31 December 2015 and over computed by Rs.4,119,729 in the year under review. As such, the value of accumulated depreciation that should remain as at the end of the year under review had been understated by Rs.78,023,956.

(b) An expenditure of Rs.319,649 incurred for immature plantations in the year under review had been shown as an expenditure in the statement of comprehensive income instead of capitalizing that cost relating to immature plantations.

(c) A sum of Rs.225,955 incurred in the years 2002 and 2011 for short term crops such as ginger and plantains had been capitalized under immature plantations. However, action had not been taken to write off that cost from accounts.

(d) Value of work-in-progress in the year under review totalled Rs.1,169,657 while the capitalized value in the year amounted to Rs.8,456,124. Nevertheless, they had been shown in the financial statements as Rs.28,504,581 and Rs.21,974,671 respectively.

(e) Expenditure totalling Rs.2,339,481 incurred in the year under review for forest plantation and for purchase of equipment through the Board, had been shown under work-in-progress instead of capitalizing separately under the relevant accounts.

(f) In the computation of the value of closing stocks of tea and rubber, the net book value of Rs.78,915,712 had been brought to account instead of carrying out a stock verification and accounting the closing stocks. Moreover, in computing that balance, negative balances of Rs.3,568,335 and Rs.1,014,417 existed from the year 1999 up to the year 2014 had been set off against the balance of closing stocks and shown instead of identifying and settling same.

(g) Expenditure on motor vehicle repairs of Rs.234,859 incurred in the year under review by the Rahathungoda Estate had been capitalized as an expenditure incurred on timber plantation.

(h) Depreciation of Rs.2,567,521 relating to the year under review for machinery, motor vehicles, equipment, computers and household appliances of the estates and the Head Office of the Board to the total cost of Rs.12,829,343, had not been brought to account. As such, the net value of those assets and the loss from operations had been overstated and understated respectively.

(i) Depreciation of Rs.963,119 relating to preceding years for Roads and bridges, machinery and equipment to the total cost of Rs.13,756,219 of the estates and the Head Office of the Board had been adjusted relevant to the year under review and as such, the loss of the year had been overstated in accounts by that value.

(j) Depreciation had been computed exceeding the depreciation rate followed by the Board for computers and equipment at a total cost of Rs.4,098,997 of the estates and the Head Office of the Board and as such, depreciation of Rs.636,873 relating to the year under review had been overstated in accounts and the loss from operations had been overstated by that amount while the net value of assets had been understated.

(k) Even though the income receivable relating to the year under review from leasing out 12 buildings located in Colombo belonging to the Board amounted to Rs.43,789,256, it had been brought to account as Rs.10,041,700. As such, the income relevant to the year under review and the income receivable had been understated by Rs.33,747,556 in the financial statements.

(l) According to the financial statements presented as at 31 December 2016, the income from leased out lands for the year under review had been shown as Rs.44,541,880. However, that income comprised of a sum of Rs.15,854,592 paid relating to preceding years and income from building rents amounting to Rs.16.978,168. Moreover, income from lease for 20 lands used in the computation of lease income in the year under review had been understated by Rs.459,372.

(m) According to the accounting policies of the Board, annual depreciation for equipment should be 12.5 per cent. Nevertheless, those assets had been depreciated under a 5 per cent ratio. As such, depreciation for the year under review had been understated in accounts by Rs.61,438.

(n) Even though provision for amortization should be made by 5 per cent for all mature plantations, provision for amortization had not been made relating to other immature plantations of Rs.8,203,624.

(o) Even though 5 per cent should be annually depreciated for roads and bridges, line rooms and buildings established from the year 1997 and following years, depreciation had not been computed from many years so as to include all assets. Accordingly, depreciation of Rs.21,248,940 up to 31 December 2015 and depreciation of Rs.2,000,877 for the year under review relating to those assets costing Rs.40,017,533 had not been brought to account.

(p) It was the policy of depreciation of the Board to depreciate machinery purchased after the year 2012 and preceding years at the rate of 20 per cent and 33 1/3 per cent respectively. However, 04 estates had not followed this accounting policy and as such, depreciation had been overstated in accounts by Rs.1,030,073 in the year under review.

(q) Even though a sum of Rs.6,051,265 incurred for projects commenced in the year 2009, had been shown under capital work-in-progress in the financial statements, those projects had failed by 31 December of the year under review. However, action had not been taken to write off those expenses.

(r) The expenditure incurred for plant nurseries valued at Rs.177,961 to be accounted under mature position, had been shown under work-in-progress even by the year under review.

(s) Action had not been taken to write off expenditure in the nature of surcharge amounting to Rs.3,339,466 indicated in the capital work-in-progress balance for over a period of 05 years, as expenditure.

(t) Income from interest on fixed deposits amounting to Rs.231,859 relating to the year 2016 had been omitted from accounts.

2.2.5 Unexplained Differences

The following observations are made.

(a) According to financial statements, the balance of the Capital Work-in-Progress Ledger Account amounted to Rs.21,974,761 as at 31 December of the year under review. However, according to schedules, it was Rs.21,218,114, thus observing a difference of Rs.756,647.

(b) Differences of Rs.75,508,295 and Rs.88,120,005 were reflected respectively for immature plantations and mature plantations between the values in the financial statements and the schedules relating to tea, rubber and other plantations as at 31 December of the year under review.

(c) The balance according to Ledger Accounts relating to Fixed Deposits amounted to Rs.3,651,833 while that value was Rs.3,582,416 according to the Register of Fixed Deposits, thus observing a difference of Rs.69,417.

(d) According to financial statements as at 31 December of the year under review, a difference totalling Rs.34,993,072 was observed between the balances such as balance of provision for gratuity, gratuity payable and surcharge expenditure on gratuity and the relevant schedules.

(e) According to statements of accounts of the Board as at 31 December 2016, the amount receivable from Elkaduwa Plantations was Rs.670,350. However, according to financial statements of that company, that amount was Rs.1,185,670.

2.2.6 Lack of Evidence for Audit

As evidence indicated against the following items of accounts had not been made available to Audit, they could not be satisfactorily vouched or accepted.

Item	Value	Evidence not made Available
	Rs.	
(a) Lands, buildings and motor vehicles	1,651,989,274	i. Schedules ii. Register of Fixed Assets iii. Physical verification reports
(b) Debtors receipts of the consumer division and debtors' receipts of the Galaha Estate	28,986,415	i. Schedules ii. Debtors Age Analysis iii. Confirmations of Balances
(c) Trade accounts payable	2,532,160,239	i. Schedules ii. Creditors Age Analysis
(d) Capital Work-in-Progress	3,197,506	Project files
(e) Fixed deposits	3,651,833	Fixed deposit certificates and Confirmation of Bank Balances

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to recover the monies receivable from debtors amounting to Rs.339,549,051 had remained dormant over a period of 05 years.

(b) Action had not been taken to recover unsettled festival advances of Rs.654,077 remaining since the year 2009 from the relevant employees.

(c) Unsettled accrued expenditure of Rs.17,352,768 and repayable deposits of Rs.48,338,488 remained from many years and action had not been taken to identify and settle them accurately.

(d) Action had not been taken to remit members' fees for labour societies, amounting to Rs.7,789,052 deducted from the salaries of estate labourers from many years by the Board.

(e) The income from lease rent receivable comprised of specifically unidentified debit balances of Rs.16,619,043 and credit balances of Rs.2,274,185 and action had not been taken to identify those balances and to recover or settle them.

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

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

Reference to Laws, Rules, Regulations etc.	Non-compliances
(a) Employees' Trust Fund Act, No.46 of 1980, Payment of Gratuity Act, No.12 of 1983 and Employees' Provident Fund Act, No.15 of 1958	The statutory liabilities of the Board had not been properly settled. As such, statutory liabilities totalling Rs.1,451,209,847 comprising sums of Rs.381,475,552, Rs.32,367,337, Rs.19,139,467, Rs.3,200,018, Rs.512,688,406 and Rs.502,339,067 relating to the Employees Provident Fund, Employees Trust Fund, Estate Workers Provident Fund, Lanka Planters Provident Fund, gratuity payable and Employees Provident Funds and Employees Trust funds payable on court decisions, existed as at 31 December 2016 respectively.
(b) Public Enterprises Circular No. PED 1/2015 of 25 May 2015	Transport and fuel allowances had been paid at the rate of Rs.30,000 monthly to officers who are not entitled to official vehicles and the Board had incurred an expenditure of Rs.1,791,120 therefor in the year under review.
(c) Public Finance Circular No.03/2015 of 14 July 2015	Even though relevant advances should be settled within 10 days immediately after completing the purpose, advances amounting to Rs.20,911,975 remained, exceeding one year.
(d) Economic Service Charge Act, No.13 of 2006	Economic service charge should be paid to the Department of Inland Revenue at the end of every quarter before the 20th of the following month. However, payments had not been made as such since many years. As a result, charges payable as at 31 December for the year under review was Rs.7,819,534.
(e) Nation Building Tax Act, No.09 of 2009	The Board had retained the Nation Building Tax of Rs.8,549,879 recovered from external parties without taking action even by 31 December 2016 to remit to the Department of Inland Revenue.

(f) Guidelines issued on Vesting of State Lands of 21 July 1995	According to Guideline 8, in vesting of state lands, tax should be charged based on the valuation report of the Chief Government Valuer. However, contrary to that, 4,825 square feet and 5,322 square feet had been leased out to a private institution and to another institution for periods of 25 years and 30 years respectively from 01 April 2003 by a Memorandum of Understanding.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board had been a deficit of Rs.563,961,014 for the year under review as compared with the corresponding deficit of Rs.443,532,303 for the preceding year, thus indicating a deterioration of Rs.120,428,711 in the financial result for the year under review. The decline in the production of Made tea and the decrease in the gross profit by Rs.28,228,298 as a result, decrease in the income from lease rent of buildings by Rs.95,819,181 and the decrease in other income by Rs.48,226,325 in the year under review had mainly attributed to the deterioration of the above financial result.

An analysis of the financial results for the year under review and 04 preceding years revealed a loss from the year 2012 up to the year under review. The highest loss of Rs.676,285,352 was indicated in the year 2013 and it had decreased to Rs.413,342,669 in the year 2014. The loss had gradually increased again since the year 2015. However, in readjusting the employees' remuneration, Government tax and depreciation to the financial result, a negative contribution of Rs.177,128,495 had taken place in the year 2012. Even though it had improved from the year 2013 up to the year 2015 with a positive contribution of Rs.666,532,742, that contribution had again decreased in the year under review to Rs.265,931,450.

3.2 Analytical Financial Review

The following observations are made.

(a) The interest income paid to brokers had decreased by 46 per cent as compared with the preceding year, thus observing a decrease by 21 per cent in the financial expenditure for the year under review.

(b) The profitability of the main items of production of the Board of the year under review is compared with the two preceding years and given below.

Total Contribution

Production	2016	2015	2014
	Rs.	Rs.	Rs.
Tea	(374,060,186)	(416,531,996)	(309,250,507)
Rubber	(23,958,649)	(18,419,436)	(19,453,637)
Coconut	(4,958,669)	(4,467,633)	(3,315,237)
Inter crops	910,931	9,483,167	6,332,600
Jana Tea	3,200,522	2,841,547	2,401,614

The following observations are made.

(i) The loss sustained from sale of Made tea and Green tea in the year under review had increased by 21 per cent as compared with the year 2014 while it had decreased by 10 per cent as compared with the year 2015.

(ii) Even though the production of rubber latex had increased by 84,267 kilograms in the year under review as compared with the preceding year, the production cost had increased by 14 per cent. As such, the loss had increased by 30 per cent as compared with the year 2015.

(iii) The quantity of coconuts sold in the year under review had increased by 26,769 nuts as compared with the preceding year and the income had increased by 57 per cent. Moreover, the production cost had increased by 17 per cent as compared with the preceding year and as such, the contribution of coconut production had further declined.

(iv) The total loss of the income in the year under review amounting to Rs.5,179,517 received in the preceding year by the sugarcane project in Kumarawatte Estate had mainly attributed to the decrease in the contribution from inter crops in the year under review.

(c) Several significant ratios of the Board for the year under review are compared with the preceding year and given below.

Details	2016	2015	2014
Gross profit ratio	-80%	-73%	-49%
Net profit ratio	-114%	-76%	-26%
Current ratio	1:3.7	1:3.8	1:4.3
Quick ratio	1:4.2	1:4.2	1:4

The gross profit ratio and the net profit ratio of the Board had taken a negative value for the year under review as compared with the preceding year and it had further deteriorated from 35 per cent to 65 per cent and from 76 per cent to 114 per cent respectively. Moreover, as the liquidity ratio of the Board had been at a very low level, there was a risk of problems rising in the working capital.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Installation and maintenance of machinery and equipment necessary for agricultural activities and establishment of factories was one of the key objectives of the Board. Six factories so existed in operative condition were leased out and tea factories located in 5 tea estates had been in inoperative condition by the end of the year under review. Moreover, the machinery of factories to the book value of Rs.7,639,107 had been subjected to decay.

(b) The contribution of a kilogram of Made tea in 17 estates had taken a negative value for the year under review as compared with the preceding year and it had been ranging between Rs.179 and Rs.533. Accordingly, the initial cost to be incurred in producing one kilogram of tea by the Board could not be covered from the sales income and as such, it had resulted in a negative contribution.

(c) According to the standards of the Tea Research Institute, the average yield of Medarata tea per hectare was about 1200 kilograms. The yield of Made tea per one hectare of the Board in the year under review ranged between 221 kilograms and 508 kilograms and according to the Standards of the Tea Research Institute, it had taken a very low value as compared with the average yield of 1200 kilograms. Moreover, except for the Great Valley Estate of the Board, the produce of Made tea from a hectare of other estates had decreased in the year under review as compared with the preceding year.

4.2 Operating Activities

(a) The following observations are made in respect of the property leased out by the Board.

(i) A case bearing No. S/71049/2010 had been filed by the Board against a private company for failure in paying lease rent in terms of the lease agreement for a leased out property and according the court order dated 02 February 2011, it had been decided to eject the lessee from the relevant property. As the Letter of Appeal No. RA 39/2011 submitted by the lessee as well had been rejected, the Acting General Manager had informed the lessee to hand over the relevant premises to the officers of JEDB within 7 days from 02 October 2014. Nevertheless, the lessee had not handed over the relevant property to the Board even by the date of this report and the attention of the Management had not been drawn thereon.

(ii) The Board had leased out 23,989 square feet from 01 January 2013 up to 31 December 2014 for two years to a private company. Even though the relevant lease period had come to an end, the lessee had been occupying the buildings even by the end of the year under review without entering into a new agreement or paying the lease rent.

(iii) A building of 11,500 square feet in extent had been leased out at the rate of Rs.60 per square foot to the Sri Lanka Institute of Advanced Technological Education for a period of 4 years from 04 August 2012 and the relevant lease period had come to an end on 03 August 2016. The General Manager of the Board had informed the Technological Institute by a letter dated 03 September 2016 to pay a sum of Rs.1,437,500 as the new lease rent. However, the Technological Institute had not agreed to that and the old lease rent was further being paid. Even though the lease period had ended, attention had not been paid by the Management to enter into a new lease agreement or to lease out to another lessee after carrying out a proper valuation.

(iv) A building of 14,500 square feet located at No.320, Darley Road had been given out on lease basis at the rate of Rs.13.50 per square foot to a private company since the year 2003 for a period of 25 years and had entered into a lease agreement to be operated from 25 October 2005. According to clause 3(a) of that agreement, monthly lease rentals should be charged according to a Government valuation once in every 5 years. Nevertheless, the relevant lease rent had not been recovered according to the Government valuation by the Board and the lessee had been paying the old lease rent even by the end of the year under review.

(v) The outstanding lease rents recoverable for buildings of the JEDB Head Office given out on lease basis to the institutions of Rubber Development Department, Plantation Industries Supervision Division, Thurusaviya Fund and Ministry of Plantation Industries amounted to Rs.14,248,699 and the Board had failed to recover the relevant lease rent even by the end of the year under review. Moreover, action had not been taken to give these buildings out on lease basis after being vacated by those institutions. As such, these buildings remained idle since the year 2015 and according to the amounts charged by those institutions for the last time, the Board had been deprived of an income of approximately Rs.22,515,000 that could have been gained per year by leasing out an extent of 33,567 square feet.

(vi) The Board had issued invoices for the recovery of lease rents at the rate of Rs.60 per square feet up to 31 December 2015 for 2,572 square feet of the first floor of the building located at No.520, Darley Road, given out on lease basis to the Elkaduwa Plantations PLC. However, no lease rent had been paid even up to the end of the year under review and no lease agreement had been entered into by the two parties as well.

(b) Even though there should be 550 rubber plants per one hectare according to the data of the Annual Report of the Rubber Development Department, that number ranged between 200 and 500 in the Kumarawatte Estate.

(c) According to the schedule presented to Audit by the Board, the extent of lands leased out stood at 2,688 acres and only the lease rent income relating to 313.9 acres out of that had been shown in the financial statements and action had not been taken to compute and recover the lease rent income relating to the remaining extent of land.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) Even though a payment of Rs.7,328,456 should have been made by a private company for supply of tea leaves by October 2016 to the Elkaduwa Plantations PLC which is a parallel plantation company of the Government, the Board had entered into an agreement on 27 October in the year under review for supply of tea leaves of the Hantana Estate to that private company. The approval of the Board of Directors had been granted when a member of the Board of Directors had been the Chairman of the Elkaduwa Plantations PLC. The sum of Rs.5,865,670 payable by that private company for supply of tea leaves to the Board in the months of November and December of the year under review had not been recovered even by the end of the year 2017.

(b) The Hantana tea factory which was functioning in the year 2015 had discontinued its operations in the year 2016 due to a risk in landslides. The recommendation of the National Building Research Organization was not presented to Audit in confirming the said risk and that factory had been leased out to an external party.

4.4 Staff Administration

The following observations are made.

(a) In terms of paragraph 13 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, an acting appointment should be made only for an existing vacancy in a permanent post and if appointed by the Appointing Authority, additional remunerations should not be paid. However, an Assistant Estate Superintendent had been appointed from 23 November 2015 in the Acting Post of Manager (Forest Resources), which is a post not included in the approved cadre of the Board and an expenditure of Rs.500,153 had been incurred in the year under review for the payment of two additional employees' allowances to the relevant officer.

(b) In terms of Letter No. DMS/1696 of 18 November 2013 of the Department of Management Services, it had been informed that the Manager (Legal) of the Board recruited on contract basis should be placed on a suitable step of MM 1-1 salary code. However, contrary to that, a sum of Rs.1,350,000 had been spent in the year under review for paying a monthly allowance of Rs.100,000 and a sum of Rs.30,000 as transport and fuel allowances to two Legal Officers recruited in the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Public Enterprises Circular No. PED/12 of 03 June 2003, accounts for the year should be presented to the Auditor General within 60 days after the closure of the year of accounts. Nevertheless, accounts for the year 2016 had been presented by the Board only on 22 November 2017.

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 Board from time to time. Special attention should be paid to the following areas of systems and control.

Areas of Systems and Controls	Observations
(a) Accounting	(i) Instances in which accounts were not prepared in compliance with Accounting Standards. (ii) Non-inclusion of transactions in Ledger Accounts by identifying accurately. (iii) Failure in paying attention to rectify the accounting errors pointed out by audit reports.
(b) Management of properties on lease	Problems in leasing out properties and recovery of lease income, weaknesses in protecting lease properties and non-maintenance of registers so as to specifically identify the amount of lease rent received and receivable by leasing out properties.
(c) Control of Operations	Failure in paying attention to increase production and to decrease production cost
(d) Maintenance of Registers	Failure in proper maintenance of Registers on Payment of Gratuity and as a result, non-elimination of gratuity paid and existence of instances where one employee had been issued with more than one employee number.