

## **Sri Lanka State Plantations Corporation - 2016**

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The audit of operating activities of the Sri Lanka State Plantation Corporation for the year ended 31 December 2016 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. My observations in respect of the operations of the Corporation of the year under review, which I consider should be presented to Parliament in terms of the 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**

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The Management is responsible for the preparation and fair presentation of the financial statements of the Corporation 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**

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### **2.1 Presentation of Financial Statements**

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Even though the financial statements and the draft Annual Report should be furnished to the Auditor General within 60 days after close of the year of accounts in terms of Section 6.5.1 of the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises, the financial statements and draft Annual Report for the year 2016 had not been presented to the Auditor General even by 05 June 2018.

### **2.2 Maintenance of Books of Accounts and Registers**

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

### **2.3 Existence of Assets and Liabilities**

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Details on assets, liabilities, income and expenditure stated in the last financial statements as at 31 December 2015 prepared by the Corporation are given below.

<b>Assets</b>	<b>Value</b>
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	Rs.
Non-current Assets	5,808,810,849
Current Assets	<u>284,751,569</u>
Total Assets	<u>6,093,562,418</u>
<b>Liabilities</b>	
Current Liabilities	1,072,869,176
Non-current Liabilities	<u>375,662,227</u>
Total Liabilities	1,448,531,403

Net Assets/Title	<u>4,645,031,015</u>
Total Liabilities	<u>6,093,562,418</u>
Total Income	542,304,208
Total Expenditure	<u>764,540,805</u>
Deficit	<u>222,236,597</u>

## 2.4 Lack of Documentary Evidence for Audit

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Evidence indicated against the following items had not been made available to Audit.

Item	Value	Evidence not made available
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	Rs.	
Expenditure on Fuel (relating to Alakolla and Kotaganga Estates)	79,602	Bills and Daily Running Charts
Sundry Expenditure ( relating to Hunnasgiriya, Alakolla and Hare Park Estates)	405,208	Bills

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

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Fuel allowances totalling Rs.200,000 for a period of 04 months from June to September 2016 at Rs.50,000 per month had been paid to an officer who is not entitled for an official motor vehicle in terms of the Public Enterprises Circular No.1/2015 of 25 May 2015 and the Public Administration Circular No.05/2016 of 09 March 2016.

## 3. Operating Review

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### 3.1 Performance

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The following observations are made.

- (a) The following matters were observed in the comparison of Made Tea production in the year under review and preceding years relating to 12 Estates maintained by the Corporation.
  - (i) According to the Report on the statistics pertaining to plantations of the Ministry of Plantations in the year 2016 , even though the average tea yield per annum expected from a hectare was approximately 1,695 kilogrammes, the tea yield per hectare of the Estates belonging to the Corporation in the year under review had been in a low range from 176 kilogrammes to 685 kilogrammes.

- (ii) The Made Tea production of 10 estates out of the 12 estates belonging to the Corporation had decreased by the year under review as compared to the year 2012 and out of that, the Made Tea production of the two Estates, Hagala and Midland had dropped by about 49 per cent during the said period.
  - (iii) Even though the standard quantity of Made Tea that should be annually produced by 2,669 hectares, the extent of lands in which tea had been cultivated, of the Corporation should be 4,904,792 kilogrammes, out of that, only 1,354,531 kilogrammes or 28 per cent of the standard yield had been produced in the year under review.
- (b) Out of the land of 2,669 hectares in extent owned by the Corporation, 1,778 hectares had been provided to the external planters for tea plantation and the following matters were observed in the examination thereon.
  - (i) Even though the extent of land provided to the external planters had been increased by 18 per cent in the year under review as compared with the year 2015, the raw tea leaves supplied by them had dropped by 17,075 kilogrammes or 15 per cent.
  - (ii) Even though the standard quantity of Made Tea that should be annually produced by the extent of land maintained by the external planters should have been 1,997,181 kilogrammes, only 5 per cent of that had been produced by the external parties in the year under review. As such, the management had not paid the attention to take necessary action to obtain the maximum productivity from the extent of lands provided to external parties.
- (c) The following matters were observed in the comparison of estimated and the actual tea production of 12 Estates during the year under review.
  - (i) The tea production target given to each Estate for the year under review ranged from 50,000 kilogrammes to 487,100 kilogrammes, while the actual tea production of those Estates ranged from 25,774 kilogrammes to 320,621 kilogrammes or 35 per cent to 77 per cent. The Kotaganga Estate had reported the percentage of 35 per cent.
  - (ii) Although even a single Estate could not reach the estimated tea production given to the Estates since the year 2013 by the Corporation, it was observed that high targets had been given in the year under review as compared with the preceding year without a proper study thereon.
- (d) The contribution of a kilogramme of Made Tea pertaining to the 12 Estates owned by the Corporation had been a negative value as compared with the preceding year and it ranged from Rs.28 to Rs.467. As such, it was observed that the initial cost incurred by the Corporation for the production of one kilogramme of tea could not be covered by the sales income.
- (e) The following matters were observed in the examination of production, sales and the profit of rubber latex of the Walahanduwa Estate maintained by the Corporation relating to the year 2016.

- (i) The profit of the production of rubber latex from Walahanduwa Estate had deteriorated by Rs.6,803,694 or 140 per cent in the year under review as compared with the year 2011. Further, the yield had dropped by 24 per cent as compared to the year 2011 and the decrease in the sales price of rubber by 52 per cent and increase in the production cost per unit by 50 per cent had been the reason for the deterioration in profit.

The details are given below.

<b>Year</b>	<b>Yield</b>	<b>Sales Value</b>	<b>Cost of Production</b>	<b>Profit/ (Loss)</b>
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	kg	Rs.	Rs.	Rs.
2011	49,333	469	240	11,318,050
2012	39,219	378	289	3,405,404
2013	44,863	344	325	845,665
2014	40,741	259	337	(3,097,683)
2015	36,810	231	354	(4,513,701)
2016	37,523	222	361	(4,514,356)

- (ii) Even though the standard number of rubber trees per hectare on average should be 32,500, the number of trees per hectare in the Walahanduwa Estate stood at 20,558 and it represented 63 per cent of the standard quantity.
- (iii) Even though the rubber production in a hectare in Sri Lanka during the year 2014 had been 914 kilogrammes, the rubber production in a hectare of the Walahanduwa Estate in the year under review had been dropped to 577 kilogrammes.

### 3.2 Management Activities

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The following observations are made.

- (a) Even though 500 tons of scrap iron owned by 10 Estates of the Corporation had been separately identified as units, in general, one kilogramme of iron had been valued at Rs.35 without being valued as items or categories. As such, valuable goods such as electric motors, lathe machines, tractor trailers and engines included in the said scrap items had been underestimated. Even though an income of Rs.17,500,000 had been estimated to be obtained by the sale of 500 tons of iron at Rs.35 per kilogramme, the actual income obtained was only Rs. 2,177,120 and it represented 12 per cent of the estimated income.
- (b) Plucking tea leaves for 6 fields per year should be carried out in 288 times at 4 times per month in respect of a field in Nellumale Bedume of the Kallebokka Estate. Nevertheless, it was observed in the examination of data pertaining to 3 preceding years that tea leaves had been plucked in approximately 190 times only per year.

- (c) According to the instructions of the Circular No.04/03 issued by the Sri Lanka Tea Board in March 2003, the growth of apical bud remain dormant after unfolding 4-5 tea leaves and it directly affects the tea production and the decrease in the quality of Made Tea. Even though the standard refuse tea from the production of Made Tea was 3 per cent, the percentage of refuse tea in the Kallebokka Factory during the year under review ranged from 6 per cent to 21 per cent due to the handing over of substandard tea leaves to the said factory.
- (d) The contract valued at approximately Rs.5 million pertaining to repairing the roof of the Factory of Kellebokka Estate had been awarded to a contractor only on a Letter of Acceptance dated 25 July 2015 without entering into a formal agreement. A due date for the completion and handing over of that work had not been specified therein and the relevant work had not been completed even by the end of the year under review.
- (e) A land of 0.152 hectares in extent owned by the Gammaduwa Estate had been given by the Corporation to a private institution on lease basis for 30 years through the Lease Agreement No.1024 dated 01 July 1999. The Conditions relating to the annual increase of lease rent had not been included in the Agreement and in terms of the Circular No.SAI/A/4/34 dated 21 July 1995 issued by the Secretary to the President, the increase of lease rent by 50 per cent once in five years had not been recovered by the Corporation. As such, the outstanding lease rent recoverable to the Corporation as at 31 December of the year under review amounted to Rs.1,936,688 and a total amount of Rs.3,936,188 including a sum of Rs.1,999,500 recoverable to the Corporation for maintenance of by-roads as per the Agreement, had not been recovered by the Corporation.
- (f) A land of 232 acres, 03 roods and 02 perches in extent owned by the Nidwood share of the Viharagala Estate had been given to an external party on lease basis from 08 April 1992 and the relevant lessee had defaulted the lease payment since the year 2007, thus it had been leased out again to a private institution since the year 2011. According to the records of the Land Division of the Corporation, outstanding lease rent totalling Rs.1,559,250 was recoverable from the first lessee as at 31 December 2016. At present, out of the land leased out, about 110 acres had been occupied by the encroachers while the necessary action had not been taken by the Corporation in this connection.
- (g) As the tea plantations in 218 hectares of the Kallebokka Estate were older than 50 years, those tea plants were in a position to be removed and replanted. Nevertheless, the Management had not taken action to remove the plantations of which their lifespan were expired and replant them.

### **3.3 Operating Activities**

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 The following observations are made.

- (a) The equipment for removing the refuse tea in the “Michi Shifter” relating to the process of tea production in the Kallebokka Factory was inoperative over a period of one year, thus the refuse tea was not removed. As such, the Assessment Reports of Tea Samples had frequently pointed out that refuse tea was contained in the produced tea. Nevertheless, action had not been taken to repair the said machine or to take necessary steps.

- (b) A land of 222 hectares in extent owned by the Gammaduwa Estate had been given to the Gammaduwa Plantations Private Limited for a sum of Rs.694,000 per annum on lease basis for 30 years through the Lease Agreement No.115 dated 12 October 2011. However, outstanding lease rent totalling Rs.3,470,000 recoverable therefrom for the period from the year 2011 up to 11 October 2016, had not been recovered.

### **3.4 Identified Losses**

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The following observations are made.

- (a) As the new plantations were not commenced in Estates , 26,533 plants in a tea nursery of the Kallebokka Estate had not been issued for plantation. Even though a sum of Rs.809,939 had been spent therefor by the end of the year under review, it was observed in audit that those seedlings were rooted and unable to replant.
- (b) A price lower than the price given for the Janatha Estates Development Board being a supplier of tea leaves similar to the Corporation, had been given for 407,558 kilogrammes of the Corporation by a private tea factory in January, February and March 2016. As such, an income of Rs.2,404,407 was deprived of during the year under review.
- (c) The Superintendent of the Alakolla Estate had purchased 36 liters of chemicals from a private Estate at a price higher than the market price, exceeding the approved limit for expenditure without an approval of the Head Office and deviating from the Procurement Procedure. Consequently, the Corporation had sustained a loss of Rs.21,982.

### **3.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) Despite the possibility of collecting 32,756 kilogrammes of raw tea leaves for a maximum production of 23,585 kilogrammes in the two storey Withering Section of the Kallebokka Factory, only 11,600 kilogrammes of tea leaves had been utilized for the process of production. Accordingly, it was observed that 64 per cent of the entire capacity remained underutilized.
- (b) The bungalows and quarters owned by the Kallebokka Estate were in a dilapidated condition due to the failure to carry out maintenance work. It was revealed in the field inspection carried out on 02 February 2017 that 8 quarters and bungalows belonging to several fields had been abandoned without being used.
- (c) It was revealed in the field inspection carried out on 02 February 2017 that the machinery used for grinding tea leaves, electricity generators and other equipment in the Hunnasgiriya Tea Factory where the production of tea was discontinued and the bungalow of the Assistant Superintendent located at the upper part of Hunnasgiriya had remained idle for several years.

- (d) Three grinding systems using the CTC method of processing exist in the Kallebokka Factory and out of that, first system had been removed from being used for several years. Even though the grinder with a capacity of 1,300 kilogrammes per hour of the second grinding system had been removed for repairs by 02 February 2017, the date of field inspection, it had not been sent for repairs even by December of the year under review. Accordingly, those two grinders had not been used for the purposes of the Factory. Furthermore, it was observed that the third grinding system with a standard capacity of 1,200 kilogrammes per hour had also been utilized at a low capacity with 650 kilogrammes per hour or 54 per cent of the standard capacity.
- (e) According to the Catalogue of Ferguson Estates relating to the period 1983-1985, the total extent of the Gammaduwa Estate is 1,624 hectares . Out of that, 573 hectares had been given to the Gammaduwa Plantation Company through the Lease Agreement No.371. However, the Company had not taken action to identify the remaining extent of land with 1,051 hectares and to utilize it.
- (f) The bungalow located at the land of 1 rood and 37.2 perches in extent of the Water Land of the Perth Estate and the coconut cultivation of 4.33 acres entrusted to the Plantation Corporation by the Gazette Extraordinary No.815/D of 21 April 1994, are being utilized by a private company at present. Nevertheless, any information pertaining to the legal transfer of that property to the private company, was not available in the Corporation and no action had been taken to reacquire that property or necessary action had not been taken.
- (g) The production capacity of Firing Section of the Kallebokka Factory was 682 kilogrammes of tea leaves per hour and 1,368,954 kilogrammes of raw tea leaves could have been used for production purposes within the said capacity for 251 days in which tea leaves were plucked during the year 2016. Even though the tea leaves plucked during the year under review stood at 1,337,683 kilogrammes, only 502,504 kilogrammes (i.e. 37 per cent )of tea leaves had been used for the input process while the remaining tea leaves had been sold to external buyers.

### **3.6 Staff Administration**

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A Scheme of Recruitment prepared for each post in terms of Paragraph 9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, was not available in the Corporation.

## **4. Accountability and Good Governance**

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### **4.1 Internal Audit**

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Even though plans had been made to implement 28 programmes covering 14 Estates, the Regional Office and all Divisions of the Head Office according to the Audit Plan of the year under review, only 5 Estates and 2 Divisions of the Head Office had been inspected and presented the Audit Reports. As such, the Internal Audit Unit had not taken action to achieve its planned targets.

## 4.2 Audit Committee

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Even though Audit Committee meetings should be held once in 03 months in terms of Public Enterprises Circular No.55 of 14 December 2010, no meetings had been held for the year under review.

## 5. 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 Corporation from time to time. Special attention is needed in respect of the following areas of control.

### Areas of Systems and Controls

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### Observations

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(a) Maintenance of Registers	Non-maintenance of source Registers properly.
(b) Budgetary Control	Supervision of achieving the budgeted targets is at a low level and non- use of technical tools and processes relating to the improvement of the performance.
(c) Utilization of Machines in Factories	Non-utilization of the maximum capacity.
(d) Utilization of Assets	Underutilization of quarters and failure to carry out repairs in a timely manner.
(e) Maintenance of Plantations	Non-maintenance of plantations in Estates so as to obtain a maximum yield.
(f) Staff Management	Non-segregation of duties among employees properly.
(g) Internal Audit	Failure to implement the Internal Audit Plan as expected.