

Sri Lanka Tea Board – 2016

The audit of financial statements of the Sri Lanka Tea Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. A detailed Report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Board on 10 October 2017.

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 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

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

2. Financial Statements

2.1 Qualified Opinion

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 2016 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

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

Even though the assets and liabilities should not be offset against each other unless required or permitted by the standard in terms of Paragraph 32 of the Standard, value of two debtors balances totalling Rs.107,891 as at 31 December 2016 had been offset against the creditors balance of Rs.591,011 and net value of Rs.483,120 had been shown in the financial statements.

(b) Sri Lanka Accounting Standard 10

The date approved by the Board of Director for the issue of financial statements had not been disclosed in the financial statements as required by Paragraph 17 of the Standard.

(c) Sri Lanka Accounting Standard 16

As the useful life of the non-current assets had not been review annually, assets valued at Rs.75,404,030 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimation in accordance with the Sri Lanka Accounting Standard 8.

(d) Sri Lanka Accounting Standard 17

Necessary disclosures on the lands/buildings obtained by the Board on hire purchase method had not been made in the financial statements in terms of Paragraph 35 of the Standard.

(e) **Sri Lanka Accounting Standard 37**

Necessary disclosures on the current position relating to the cases filed against the Board in Courts had not made in the financial statements.

2.2.2 Accounting Policies

In terms of the Gazette No.1677/14 dated 27 October 2010, it had been stated that the monies of the Promotion and Marketing Fund should be used only for the achievement of the objectives of the Fund. Nevertheless, interest income on the investments of that Fund amounting to Rs.30,044,000 had been brought to account as the income of the Tea Board for the year under review, whereas the accounting policy relating to the method adopted had not been disclosed.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) In accounting the interest payable in respect of the bank loans obtained by the Board for granting loans for the regional plantation companies, a sum of Rs.300,310 had been understated in the accounts.
- (b) A sum of Rs.195,521,240 paid to a private company under Sri Lanka Tea Global Promotion Programme had been brought to account as expenditure of the Promotion and Marketing Fund, instead of being accounted as an advance. As such, the expenditure of the Promotion and Marketing Fund had been overstated by that amount.
- (c) A sum of Rs.669,182 received as the direct deposits to the Collection Bank Accounts of the Regional Offices during the year under review had not been identified and brought to account.
- (d) The initial payment of Rs.900,000 which is paid only once and that had been paid in respect of the land obtained on lease basis for the Divisional Secretariat, Baduraliya had been entirely brought to account as an expenditure of the year.
- (e) The Green Tea Leaf Deposits amounting to Rs.435,000 refunded in the year under review had been brought to account as a development expenditure.
- (f) Even though a property had been obtained on lease basis for 50 years at Rs.3,435,000 by the Deed of Lease No.1028/1035 dated 23 August 2004 for the maintenance of Ratnapura Regional Office, it had not been included in accounts.

2.2.4 Unexplained Differences

Even though the Cash and Bank balances of the Promotion Bureau in the United Arab Emirates for Middle East, Gulf and African regions as at the end of the year under review had been shown as Rs.4,499,717 in the final accounts, according to the confirmation of balances, that amounted to Rs.2,470,416. As such an unexplained difference of Rs.2,029,301 was observed.

2.2.5 Lack of Evidence for Audit

Applications received relating to the factory modernization assistance during the year under review and the details on their progress and the detailed schedules and the balance confirmations relating to the payable promotion expenditure amounting to Rs.1,061,687 had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made

- (a) A sum of Rs.25,000,000 shown as receivable from the Janatha Estate Development Board for more than a period of five years had not been recovered even by the end of the year under review. However, according to the minutes of the Committee on Public Enterprises held on 19 June 2012, the Janatha Estate Development Board and the Tea Board had reached a decision to take over the ownership of the “Ceylon Tea Museum” of the Janatha Estate Development Board situated at Hanthana and to write off the above balance. Nevertheless, this process had not been finalized even by 30 June 2017, the date of audit.
- (b) Out of the assistance of Rs.6,738,000,000 received by the Board from the Treasury for making payments for the tea leaves suppliers for maintain minimum price of Rs.80 for green tea leaves in the preceding year, a sum of Rs.16,453,451 had been retained by the end of the year under review without being remitted to the General Treasury.
- (c) Out of Rs.9,690,443 deposited in the Board by the tea factory owners since year 2000 for making payments to the green tea leaves suppliers, a sum of Rs.5,350,080 had not been paid although one year had elapsed.

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

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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| (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, renewal of registration, the licence fees 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. |

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| (c) | Financial Regulation 759 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | An Annual Board of Survey had not been conducted as at the end of the year under review. |
| (d) | Section 9.14 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. | Even though the Board should prepare a procedural manual relating to the formulation of laws and rules for human resources management and obtain the approval of the Secretary to the Treasury, action had not been taken accordingly. |
| (e) | Internal Circulars of the Tea Commissioner of the Tea Board. | |
| | (i) Circular No. TC/E/VI/08 dated 20 December 2001. | According to the circular, all the tea exporters should renew their registration with the Tea Board annually, whereas 04 tea exporters who had not complied with that matter had been provided opportunities for the export of tea. |
| | (ii) Circular No.TC/CIR/204 dated 10 January 2011 | Although the registration of all tea factories should be renewed annually, according to the data of the Board, registration of 33 factories had not been properly updated. Nevertheless, attention of the Board had not been paid thereon. |
| | (iii) Sections 5.1 and 6.III of the Circular No.TC/FMSS dated 01 November 2015. | Even though the machinery and equipment purchased in the year of forwarding the applications are eligible for receiving assistance, contrary to that, a sum of Rs.3,280,000 had been paid to the tea factory owners in 04 instances. |

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) When retiring the officers, the Board had paid Rs.656,030 in respect of their unavailed vacation leave and the approval of the Treasury had also not been obtained therefor.
- (b) The staff of the Tea Export Branch had been paid allowances amounting Rs.160,000 during the year under review, considering the keeping of the Tea Export Branch open beyond the duty hours as a special duty on the approval of the Board of Directors, whereas the approval of the Treasury had not been obtained therefor.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year under review amounted to a surplus of Rs.4,677,534 as compared with the corresponding surplus of Rs. 86,256,974 for the preceding year, thus indicating a deterioration of Rs.81,579,440 or 94.5 per cent in the financial result for the year under review as compared with the preceding year. The decrease of the income by Rs.73,724,101 during the year under review as compared with the preceding year and the decrease of Rs.102,865,000 from the interest income of the Promotion and Publicity Fund to the income had been the main reasons for the above deterioration. Further, the financial results of the operating activities of the Board during the year under review was a deficit of Rs.5,817,906 and the financial income over financial expenditure amounted to Rs.19,492,327. As such, the net financial results of the Company had become a surplus of Rs.4,677,534.

An analysis of the financial results of the year under review and the 4 preceding years indicated that financial result of the Board had been surpluses in all other years except for the year 2012 and an improvement in the surplus from the year 2013 to the year 2015 was observed. Nevertheless, that surplus had decreased by 85 per cent during the year under review as compared with the preceding year. However, when readjusting the employees remunerations and the depreciation on the non-current assets to the financial results, the contribution of the Board had been a continuous favourable value and it had been Rs. 158,730,128 in the year 2012 and improved up to Rs.357,901,755 by the end of the year 2015. Nevertheless, it had decreased up to Rs.327,131,706 by the end of the year under review.

3.2 Analytical Financial Review

The current ratio is of the year under review and the preceding year had been 8.74 and 16.9 respectively and it had been mainly attributed by the representation of 88 per cent of total current assets by short term investment fixed deposits and the loans of regional plantation companies.

3.3 Legal Actions Instituted against or by the Board

The following observations are made.

- (a) The landlord of a building used by the Tea Commissioner's Division had made a claim for a sum of Rs.4,900,000 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 in October 2008. Accordingly, an order had been made that a sum of Rs.13,828,600 inclusive of an annual charge of 20 per cent in addition to the above amount should be paid by 14 November 2012. Nevertheless, the Board had lodged an appeal against that decision.

- (b) Five external institutions had filed 6 cases and the staff had filed 3 cases in Courts against the Board by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 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 summarized as follows.

- (i) 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.
- (ii) To regulate the establishment and operation of tea factories and to regulate the conduct of tea auctions.
- (iii) 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.
- (iv) To regulate, control and direct all institutions and organizations engaged in the management of tea estates and in the production and marketing of tea.
- (v) 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) The total tea production in Sri Lanka was gradually decreasing from the year 2014 and the total tea production in Sri Lanka had been 292,573,586 kilograms during the year under review and it had been 328,771,066 kilograms in the preceding year. Accordingly, as compared with the preceding year, the tea production of the year under review had decreased by 36,197,480 or 11 per cent . The unfavourable weather condition experienced during the year under review as well had resulted in this situation.
- (b) Although the tea export income in Sri Lanka had increased during the year under review as compared with the preceding year, as the amount of tea export was 288,770,680 kilograms and 306,936,421 kilograms in the year under review and the preceding year respectively, the tea export had decreased by 18,165,741 kilograms or 5.91 per cent as compared with the preceding year. Nevertheless, the promotion expenditure had increased by 83.6 per cent as compared with the preceding year.

Details as follows

Item	2016	2015	2014
Tea Promotion Expenditure (Rs.)	884,151,296	481,352,966	481,352,966
Total Tea Export (Kg.) (Including re-export)	288,770,680	306,936,421	327,342,457

- (c) According to the progress reports of the Board for the year under review, a sum of Rs.97,700,000 had been allocated to implement development activities under 04 programmes and the actual expenditure had been Rs.86,381,964. The following observations are made in this connection.

Development Activity	Allocation		Progress	
	Financial	Physical	Financial	Physical
	Target	Target		
	Rs.Millions		Rs.Millions	
(i) Factory Modernization Subsidy Scheme	35.00	Factories- 35	25.424	Factories-44
(ii) Tea Replanting Subsidy Scheme	35.00	Hectares- 200	44.575	Hectares- 267.2
(iii) GMP/SLS/SLTB Production Standard Certificate	3.00	Programmes- 28	3.147	Programmes- 28
(iv) Registration of Tea lands	24.70	100 percentage	12.799	75 percentage
Total	97.70		85.945	

- (i) Under the Factory Modernization Subsidy Scheme, the Board had allocated Rs.35,000,000 at maximum Rs.1,000,000 per factory. Forty four factories had been modernized by spending Rs.25,424,904 during the year under review and out of that 96 per cent had been made in respect of the applications received in the preceding year and the remaining sum of the above allocation had been used for the implementation of Tea Replanting Subsidy Scheme.

- (ii) A sum of Rs.35,000,000 had been made for the implementation of Tea Replanting Subsidy Scheme during the year under review. According to the progress reports, a sum of Rs.44,575,096 had been spent in order to cultivate 267.2 hectares of lands and it was observed to be an improvement of 27 per cent of the expenditure expected to be incurred.

- (iii) A sum of Rs.24,700,000 had been allocated for the implementation of a tea land registration programme according to the Action Plan and applications had been called for to the Board for the registration of landlords under that programme by the end of the year. Nevertheless, registration activities had not been completed and a sum of Rs.12,799,424 had been spent thereon.
- (d) According to the notification published in the Gazette No.1677/14 dated 27 October 2010 for the Tea Promotion and Market Strategies, the Board had earned a sum of Rs.5,927 million from the tea exporters from 01 November 2010 to 31 December 2015. It had been expected to implement Ceylon Tea Global Promotion Programme during the period from the year 2015 to 2018 with the use of that money and Rs.8 billion out of the tax amount expected to be collected in the ensuing 3 years. The following observations are made in this connection.
 - (i) As this programme planned for the period from the year 2012 to 2016 could not be implemented within due period, it had been extended from the year 2015 to the year 2018 and sum of Rs.195,521,240 had been spent thereon during the year under review. Nevertheless, the production creative activities of this programme had not been completed as expected.
 - (ii) Although creation of television commercial advertisement relating to the production creative activities had been completed by April 2016, as it could not be selected a Media Consultancy Agency for the implementation of Promotion Programme, it had not been possible to implement the promotion activities properly. In parallel to the production and creative activities, procurement activities should have been carried out relating to a media institution. Nevertheless, procurement activities for the selection of a service institution had not been finalized even by the date of this report.

4.2 Management Activities

The following observations are made.

- (a) The tea sales centre established in the Colombo Race Course Building at a cost of Rs.58,368,794 in the year 2013 with the objective of popularization of tea among the foreigners visiting Sri Lanka had sustained a cumulative loss of Rs.33,195,451 during the preceding two years. A feasibility study had not been conducted before the commencement of this project implemented as a tea promotion activity and the functions of this centre maintained in a premises obtained on an annual lease of Rs.4,403,419 from the Urban Development Authority for 10 years had become debilitated during the year under review. As a result, expenditure over income of Rs.9,799,269 had been incurred for the operating activities and according to a decision of the Board of Directors, it had been decided to halt the operating activities in the year 2017.

- (b) A stock of 2,079 T Shirts valued at Rs.2,545,750 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 to the Board.
- (c) As the Atomic Absorption Spectrometer (SAS) machine used in the Laboratory of the Board had become out of order in the year 2005, it had been removed from using. Accordingly, for the purchase of another machine in lieu of the above machine for the activities of the Laboratory, quotations had been called for in several instances. Nevertheless, it had been failed to purchase a machine up to the end of the year under review and as such, conduct of 07 analytical tests carried out by the Laboratory had been abandoned.
- (d) Even though an agreement had been entered into with a Consultant in the year 2015 in order to formulate a new Act by amalgamating the Sri Lanka Tea Board Act, No.14 of 1975, Tea Control Act No.51 of 1957 and the Tea (Tax and Control) Act, No.16 of 1959, the relevant activity had not been carried out even up to the year under review.

4.3 Underutilization of Funds

The balances of Rs.369,504 of 03 foreign bank accounts of the Board had remained underutilized for a period from 01 years to 04 years.

4.4 Idle and Underutilized Assets

The machine for the Analysis of Pesticide Residue in Tea purchased in the year 2009 spending Rs.32,132,088 for the analysis of pesticide residue in tea and certification and the submission of reports and the CP-3800 GAS Chromatography machine purchased at Rs.5,592,421 had not been used for the expected purpose from the date of purchase. Due to the absence of an agent within Sri Lanka to obtain the technical know-how on the operations of the machine and not providing a training on the operation of the machine by the supplier, it had not been possible to conduct tests using the above machine.

4.5 Procurement and Contract Process

According to the Public Contract Act, No.3 of 1987, the contractors in respect of the contracts exceeding Rs.5,000,000 should be registered under the Act, whereas the contractor of the contract relating to repairs of the Head Office of the Board amounting to Rs.6,278,036 had not registered under this Act. Further, in terms of the Paragraph 4.2.3 of the Government Procurement Guidelines, 2006, the acceptance letters should be sent within 05 weeks from the date closing the calling for quotations for the procurement, whereas 15 weeks had been taken relating to this contract and the activities relating to the opening of bids had not reported according to the format appeared in the Guidelines as required by the Paragraph 6.3.6. Further, in case of the value of the contract is less than the estimated cost, a certificate from the contractor had not been obtained to the effect that the relevant work would be carried out at optimum level as required by Paragraph 7.9.2.

4.6 Commencement of Projects in the Lands and Properties not properly vested in

Even though the Regional Office, Bandarawela valued at Rs.7,122,915 constructed before the year 2007 had been included in the financial statements, action had not been taken to vest the ownership of the land in which that building is situated in the Board even up to the date of this report.

4.7 Staff Administration

The approved and the actual cadre of the Board had been 308 and 277 respectively. There were 02, 03 and 28 vacancies of the posts in the Senior, Tertiary and Secondary levels respectively and 08 posts in the Primary level. Two officers had been deployed in a Senior Level posts and a Tertiary Level post and 08 officers had been deployed for 04 Secondary Level posts which are not included in the approved cadre.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

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 on 16 June 2017, that is, after a delay of 102 days.

5.2 Internal Audit

Even though an Internal Audit Unit has been established in the Board and adequate staff had been attached thereto, necessary steps had not been taken to give an adequate training to the officers attached to that unit.

5.3 Budgetary Control

The budget prepared for the year under review had been revised in 03 instances and the variances ranging from 15 per cent to 48 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 Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observation

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| (a) Accounting | Existence of delays in presenting Accounts |
| (b) Staff Administration | Recruitment to posts not included in the approved cadre. |
| (c) Accounts Receivable and Payable | Existence of unrecovered and unsettled balances over long periods. |