Tea Small Holdings Development Authority – 2016

The audit of financial statements of the Tea Small Holdings Development Authority for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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 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 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 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 base 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 Tea Small Holdings Development Authority as at 31 December 2016 and its financial performance and 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

(a) Sri Lanka Public Sector Accounting Standard - 01

Even though when items of revenue and expense are material, their nature and amount should be disclosed separately in terms of Paragraph 106 of the standard, the revenue of Rs.228,275 and expense of Rs.999,375 of mother bush at Hanthana Regional Office had not been disclosed in the statement of comprehensive income and its net result of Rs.771,100 had been posted as development expenses.

(b) Sri Lanka Public Sector Accounting Standard – 02

In the preparation of cash flow statement in terms of paragraph 25 (b) of the standard, proceeds from sale of non-current assets amounting to Rs.31,000 had been understated and that difference had been adjusted to the receivable balance under the working capital.

(c) Sri Lanka Public Sector Accounting Standard – 07

As the residual value and the useful life of non-current assets had not been reviewed annually in terms of Paragraph 65 of the standard, assets totalling Rs.15,340,175 which had been fully depreciated were being further utilised. The estimated error arisen accordingly, had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03.

(d) Sri Lanka Public Sector Accounting Standard – 08

The present position of the court cases filed by the Authority had not been disclosed in the financial statements in terms of Paragraph 100 of the standard.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Even though the interest receivable on fixed deposits and demand deposits of the Head Office for the year under review amounted to Rs.1,786,031, it had been accounted as Rs.1,467,246 and as such, the interest income of the year under review had been understated by Rs.318,785.

(b) Instead of posting the expense of Rs.655,439 incurred by the Ratnapura Regional Office for Soil Conservation to the expense account, it had been accounted as payments made to creditors.

(c) Despite the gratuity had been paid on 08 April 2016 to a retired officer who had retired on 07 December 2015 in the Hanthana Regional Office, a provisions of Rs.167,860 as gratuity had been made again for the year under review.

(d) Instead of posting a sum of Rs.327,175 incurred on plant nursery belonging to the Hanthana Regional Office in the year under review as works in progress it had been posted as closing stock.

(e) Out of a sum of Rs.624,400,000 received from the Treasury for incurring development expenditure in the year under review, only a sum of Rs.570,617,000 had been spent and the balance of Rs.53,783,000 had been brought to accounts under equity capital as grants received for development expenses instead of posting as a liability to be remitted to the Treasury.

2.2.3 Unexplained Differences

The following observations are made.

(a) Differences ranging from Rs.105 to Rs.109,972 were observed between the 6 ledger accounts in the year under review and the corresponding schedules presented.

(b) According to the accounts of the Tea Small Holding Development Authority for the year ended 31 December 2016,a sum of Rs.340,300 had been shown as receivable from the St. Kumbas Tea Factory belonging to the Tea Research Institute, that value in accordance with the accounts of that factory had been shown as Rs.256,641.

2.3 Accounts Receivable and Payable

The value of debtors elapsed for more than 5 year by the end of the year under review amounted to Rs.22,191,909, representing 94 per cent of the total debtors.

The following observations are made in this connection.

(a) Out of the loans given to 11 Small Tea Holding Societies for the provision of motor vehicles on credit basis in the year 1998, a sum of Rs.7,131,430 was due to the Authority.

(b) Out of the loan given by the program for the supply of colour differentiation machines for tea factories in the year 1998, a sum of Rs.5,916,589 was due to the Authority from 4 factories by the end of the year under review.

As the transfer of the above assets and granting loans had not been made under formal agreements, a difficult position had arisen in the recovery of relevant loans.

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

The following non-compliance with Laws, Rules, Regulations etc. were observed.

	Reference to Laws, Rules, Regulations	Non-compliance
(a)	Public Finance Circular No.03/2015 of 14 July 2015.	Advances taken by an officer for any purpose should be settled immediately after the completion of that purpose. Nevertheless, advances of Rs.636,865 obtained in 8 instances had not been settled even by 9 February 2017 the date of audit, though 11 to 275 days had delayed.
(b)	Public Finance Circular No.02/2015 of 10 July 2015.	Action in terms of the Circular had not been taken in respect of 3 motor vehicles eliminated from running.
(c)	Supplement No.28 of 04 July 2014 of the National Procurement Guidelines of 2006.	Even though the approval of the Secretary to the Ministry should be obtained for motor vehicle repairs, exceeding the value of Rs.200,000, action had not been taken accordingly, in respect of 2 motor vehicle repairs in 2 occations made by incurring an expenditure of Rs.527,467.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year under review had been a surplus of Rs.3,322,996 as against the deficit of Rs.19,855,934 for the preceding year. Accordingly, the financial result for the year under review had indicated an improvement of Rs.23,178,930 as compared with the preceding year. The decrease of provision for gratuity by Rs.22,996,714 for the year under review had mainly attributed to this improvement.

In analyzing the financial results for the year under review and the preceding 4 years, the deficit of Rs.154,165,000 in the year 2012 had converted into a surplus of Rs.3,322,996 in the year 2016 with fluctuations. However, employees remuneration, depreciation on non-current assets and taxes paid to the government had been re adjusted to the financial results, the contribution of the Authority amounting to Rs.54,784,000 in the year 2012 had increased up to Rs.277,053,385 in the year 2016.

3.2 Legal cases initiated by the Authority or against the Authority

The employees of the Authority had filled 7 court cases against the Authority and the Authority had filled 2 court cases against the employees of the Authority. But they had not been finalized even by the end of the year under review.

4. Operating Review

4.1 Performance

In terms of Sub section 14 of the Tea Small Holding Development Authority Act No.35 of 1975 and the amendment Act No.34 of 2003, the functions of the Tea Small Holding Development Authority are as follows.

- To promote or to undertake the development of Tea Small Holdings and of other Tea Holdings which do not possess their own means of manufacture.
- To aquire or to develop tea factories and other facilities required for the manufacture of the produce of such tea lands.
- To promote or to undertake the marketing of the produce of such factories or of such tea lands.
- To take all steps for the wellbeing of Tea Small Holdings and to promote investment on small tea lands.
- To provide instructions on appropriate policies to the Ministry and to coordinate with other relevant agencies.

The following observations are made relating to the achievement of the above functions.

(a) According to the information made available for audit, the contribution of the owners of Small Tea Holdings to the total tea production in Sri Lanka in the year under review had been 74.5 per cent as compared with 72.91 per cent in the preceding year. Even though the contribution of the owners of tea small holdings for the national product had increased as compared with the preceding year, production of the Tea Small Holdings owners in the year under review had dropped by 21.79 million kg or 9 per cent as compared with the preceding year, being the production of owners of Tea Small Holdings during the year under review and the previous year amounted to 218.06 million kg and 239.86 million kg respectively.

(b) The average productivity per hectare of finished tea in the Small Tea Land Sector in the year under review amounted to 1872 kg and it had been 2059 kg in the previous year. Accordingly, the average productivity of the year under review had dropped by 187 kg or 09 per cent.

It was observed that bad weather condition prevailed in the year under review had also been the reason for the matters stated in paragraphs (a) and (b) above.

(c) A subsidy of Rs.624,000,000 had been given during the year under review for the development activities such as replantation and new plantation of tea extension services, social development and institutional strengthening etc. The progress achieved as compared with the expenditure incurred is given below.

(i) According to the annual report of the Authority, it is the national policy to replant 2 per cent of the existing tea small holdings in maintaining stability in the extent of tea planted lands by yielding maximum crop, setting targets had been limited in line with the provisions received in the year. Accordingly, the targeted extent of land to be replanted during the year under review amounted to 1000 hectares but only 741 hectares of land had been used for replanting in the year under review, indicating 74 per cent performance in the year under review. Even though it had been less than 8 per cent as compared with the previous year, the subsidy given had increased by 16 per cent as compared with the preceding year. Bad weather factors and tea planters had not inclined for landscaping and replanting after soil rehabilitation had attributed to this position.

(ii) Even though it was targeted to plant 483,333 plants during the year under review under the crops rehabilitation subsidy scheme given for the use of Soil Conservation methods, prune, shade control and desolation supply, the finished percentage was 76 as the number of plants for which desolation supply had been completed amounted to 367,876.

(iii) Although the performance on the target of new Tea Planting in the year under review had been successfully achieved, landscaping and setting targets for the maintenance had been reduced by 72 per cent and 76 per cent respectively as compared with the previous year and the amount of subsidy paid had decreased by Rs.81,395,256 or 64 per cent

(d) The following observations are made in respect of 8 Institutional tea nurseries maintained by the Authority in order to purchase quality tea plants in purchasing tea plant by tea small holdings owners and to control market prices.

(i) Even though, the minimum marketing level in a plant nursery should be maintained at 85 per cent in accordance with tea nurseries instructions, the anticipated level had been reached only by Hanthana nursery. Even though all efforts had to be made to market before the end of the year, being properly maintained plants, the balance plants remained in the nursery had been 27 per cent to 74 per cent of the input plants. As the quality of plants could not be maintained due to weather fluctuations of each province, decrease in demand of the tea planters had attributed to this position.

(ii) In terms of No.4.2 of the Nurseries Management Instructions, the dead percentage of plant nurseries had to be maintained at a less than 10 per cent level, but in 3 nurseries the recommended plant destruction percentage in the year under review had been 13 to 31. The difficulty in supplying plants and the soil used had been unsuitable for planting had caused to this.

(iii) It was emphasized in the Tea Nurseries Management Instructions that at least the expenses incurred for the production of plants should be covered. Nevertheless, out of the 8 institutional nurseries, expenses had been incurred over the income of 4 nurseries.

(e) In considering the operation and supervision of Commercial Tea Plant nurseries registered with the Authority in order to obtain quality tea plants by the owners of tea small holdings to increase tea production and yield, during the previous 3 years, the number of licenses issued in the year 2016/ 2017 had decreased by 66.5 per cent as compared with the year 2014/2015.

4.2 Procurement and Contract Process

A sum of Rs.4,366,397 had been spent for the park beautifying in the Head Office premises of the Authority and the following observations are made in this connection.

(a) Instead of the agreed rate of Rs.6,000 according to the agreement for one square meter for building the point wall by using stone instead of cement block under item c-2 of the BOQ, a sum of Rs.8,141 had been paid for one square meter and as such an over payment of Rs.220,643 had been made.

(b) Even though the Authority owns 9 Institutional tea nurseries operated for the supply of quality tea plants, the Authority had purchased tea plants from external suppliers for garden beatification by incurring an expenditure of Rs.116,385.

4.3 Management Activities

The following observations are made.

(a) In granting tea replanting subsidy for the owners of Tea Small Holdings, growing plants should be completed within 3 months since the date of issue of licenses. It they failed to do so, the tea replanting subsidy already paid should be recovered back or required to take alternate action to complete the replanting. Nevertheless, a total sum of Rs.1,608,364 had been obtained comprising the first, second and the third installments amounting to Rs.678,204, Rs.209,779 and Rs.720,381 respectively from the Kaluthara Regional Office and abandoned replanting half way, but no action had been taken by the management in this regard.

(b) Action had not been taken to aquire the lands valued at Rs.14,091,861 in which 4 regional officers were located by the Authority and buildings valued at Rs.58,220,553 had been constructed on these lands by the end of the year under review.

(c) Action had not been taken to aquire and account lands and buildings to the Authority where Walahanduwa sub office belonging to the Galle Regional Office, nursery and Akmeemana Mother Planting Extension Centre etc. were located.

4.4 Under utilization of Funds

The following observations are made.

(a) Out of a sum of Rs.795.47 million received by the Head Office and Regional Offices in the year 2014 and 2015 to Soil Assistance Project, a sum of Rs.32.08 million had not been utilized for the intended purpose even by the end of the year under review.

(b) Out of the government grants of Rs.624,400,000 received in the year for development activities, a sum of Rs.62,532,020 had not been utilized.

4.5 Idle and Under utilized Assets

Six official quarters belonged to the Authority had not been used and idled for more than 5 years.

4.6 Personnel Administration

According to the information made available by the Authority, the approved cadre and the actual cadre as at 31 December 2016 stood at 430 and 395 respectively. Furthermore, 12 Management Assistants posts and 17 Karyala Karya Sahayaka posts had been approved by the Department of Management Services as personnel to the bearer of the post.

The following observations are made in this connection.

(a) Posts of Manager (Development), Manager (Training) since 2014 and Manager (Human Resources and Administration) since 2010 had fallen vacant up to the end of the year under review.

(b) Without obtaining the approval of the Department of Management Services 26 employees on casual, check roll and contract basis had been recruited by the Authority during the year under review. For those recruitments a sum of Rs.1,024,980 for check roll employees and a sum of Rs.829,536 for casual employees had been paid during the year 2016 without the approval.

(c) According to the annual report of the Authority, number of planters per Extension Officer should be 1:1000 for an effective extension service. This ratio of 1:2748 existed in the previous year had increased to 1:2751 in the year under review.

(d) In terms of sections 13.1.2 and 13.4 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, the officer who is recommended for the acting post should have full qualifications in terms of the scheme of recruitments and an officer who has no full qualification should not be recruited. However, action had not been taken accordingly, in respect of acting appointments of Manager (Development) post and Manager (Human Resources) post.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, financial statements should be presented to audit within 60 days after the close of the financial year, but the financial statements for the year under review had been presented to audit on 09 May 2017.

5.2 Internal Audit

Even though 24 internal audit reports, including observations identified by the Internal Audit Division during the year under review had been issued, the management had not taken action in respect of 15 reports therefrom and the decisions taken by the Board of Directors in respect of 5 internal audit queries issued in the years 2013 and 2014 had not been implemented.

5.3 Procurement Plan

Even though the Authority had prepared a Procurement Plan, procurements could not be performed within the specific time periods and procurements had been delayed for 4 months since the dates planned.

5.4 Budgetary Control

As variations between the budgeted figures and actuals ranging from 67 per cent to 86 per cent were observed, the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of Systems and Controls.

	Area of Systems and Control	Observations
(a)	Personnel Administration	Existence of vacancies in posts, recruitments made without formal approval.
(b)	Payment of Subsidy	Non-utilization of money received for the payment of subsidies.
(c)	Assets Control	Assets not properly acquired, useful Lifetime of assets not reviewed annually.