

## **Sri Lanka Tea Board - 2017**

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The audit of financial statements of the Sri Lanka Tea Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 15 (1) of the Sri Lanka Tea Board Law, 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 issued to the Chairman of the Board on 31 May, 2018.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 judgements, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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**

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 2017 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**

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##### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

(a) Sri Lanka Accounting Standard 01

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A summary of material Accounting Standards should be disclosed in the financial statements in terms of Paragraph 132 of the Standard. However, the Accounting Standard followed by the Board in accounting the Government grants, had not been disclosed in the financial statements.

(b) Sri Lanka Accounting Standard 16

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As the useful life of non-current assets had not been reviewed annually, machinery, laboratory equipment, and furniture & fittings costing Rs. 74,615,225, had still been in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimate in accordance with Sri Lanka Public Sector Accounting Standard 3.

(c) Sri Lanka Accounting Standard 19

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Action had not been taken to determine actuarial losses or gains with respect to employee gratuity in accordance with Paragraph 57 (d) of the Standard.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a.) Although a sum of Rs. 23,159,935 had been shown in the statement of financial position as the deposits made to the Global Tea Promotional Bureau as at 31 December 2017 and advance payments, the said value had not been adjusted based on the foreign exchange rate as at that date, and brought to accounts.
- (b.) Action had not been taken to adjust the revaluation profit of Rs. 6,250,000 included in the revaluation reserve relating to 04 vehicles sold in the year under review, to the retained profit.
- (c.) A sum of Rs. 363,624 received to the collection bank accounts of the regional offices as direct deposits in the year under review, had not been identified and brought to accounts.

### 2.2.3 Unexplained Differences

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The following observations are made.

- (a.) According to the financial statements, the value of the publishing and promotional fees received previously amounted to Rs. 28,441,373 though, the said value amounted to Rs. 35,892,100 as per the register maintained in that connection, thus observing a difference of Rs. 7,450,727.
- (b.) According to the financial statements, the cash and bank balance of the promotion bureau in United Arab Emirates had been shown as Rs. 4,499,717 as at 31 December 2016. However, that balance amounted to Rs. 2,470,416 in accordance with the letter of verification of balances, thus indicating an unexplained difference of Rs. 2,029,301. Moreover, the Board could not identify the said balance even up to the end of the year under review.

### 2.2.4 Lack of Evidence for Audit

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The evidence shown against the following Items of Accounts was not made available to Audit.

Item of Account	Value	Evidence not Made Available
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	Rs.	
(a.) Amount remitted to 06 Embassies	1,175,374	Confirmation of balances
(b.) The building obtained on lease for the regional office in Ratnapura.	3,435,000	Evidence relating to verification of payments.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- a) The Agreement of the building obtained on lease for maintaining the Global Tea Promotional Bureau in Poland had expired in the year 2010, but the initial payment of Rs. 207,360 made thereon had not been recovered even up to the date of this report.
- b) The amount of Rs. 100,000 deposited in the year 2014 as a refundable tender deposit for the building obtained to maintain the tea stall at the Racecourse ground, had not been recovered even by the end of the year under review.
- c) Even after a lapse of 03 years, action had not been taken to settle the tender deposits amounting to Rs. 200,983 that should have been refunded by the end of the year under review, and retention money amounting to Rs. 2,191,499.
- d) Although payments totalling Rs. 629,261 had been made to a private institution with respect to the “Foodex Syria” exhibition scheduled to be held in Syria in the year 2012, the said exhibition had been cancelled, and no action had been taken even up to the end of the year under review to recover those monies.
- e) Action had not been taken to settle a sum of Rs. 6,698,817 relating to a period of 1-15 years deposited in the Board by the owners of tea factories by the end of the year under review to be paid to green tea suppliers.

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

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The following instances of non-compliances with Laws, Rules, Regulations, and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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| a) Sections 13 and 14 of the Sri Lanka Tea Board Law, No. 14 of 1975. | The Board should have established and maintained the Cess Fund in terms of provisions of the Act. However, the Treasury levies the Cess tax at present, but attention had not been drawn to amend the act accordingly.  |
| b) Sections 8 and 12 of the Public Contracts Act, No.3 of 1987        | The officers of Procurement and Evaluation Committees should not have any dealing with the tenderers who do not possess a certificate of registration valid under the Registrar of Public Contracts. However, the provisions of the Act had not been complied with in respect of the contract for the construction of office buildings in Nuwara Eliya. |

- c) Paragraph 9.14 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. The Board should have prepared a handbook on procedures relating to the formulation of laws and rules for human resource management, and obtained approval of the Secretary to the Treasury. However, it had not been done so.

## **2.5 Transactions not supported by Adequate Authority**

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The following observations are made.

- (a.) Treasury approval should be obtained prior to paying a financial benefit in terms of Public Finance Circular, No. PF/PE/05, dated 11 January 2000. However, without obtaining approval of the Treasury, payments totalling Rs. 542,548 had been made in the year under review for the un-availed vacation leave of the retired officers.
- (b.) The Gazette, No. 1677/14, dated 27 October 2010 had stated that the monies in the Promotion and Marketing Fund should only be made use of in achieving the objectives thereof. However, from the interest income of that Fund, sums of Rs. 45,500,000, and Rs. 30,044,000 identified as being the income of the Board in the year under review and the preceding year respectively, had been spent on expenditures solely on the approval of the Board of Directors.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs. 89,967,892 as compared with the corresponding surplus of Rs. 4,677,534 for the preceding year, thus indicating an improvement of Rs. 85,290,358 or 1,823 per cent in the financial result for the year under review. The increase in income by Rs. 55,594,152, and the decrease in development and administrative expenses by Rs. 24,775,756 in the year under review as compared with the preceding year, had mainly attributed to the said improvement.

The analysis on the financial results of the year under review and the 04 preceding years indicated that the surplus of the Board for the year 2013 amounting to Rs. 19,071,236 had continuously increased to Rs. 86,256,974 by the end of the year 2015, but deteriorated by 85 per cent to Rs. 4,677,534 in the year 2016. However, in the year under review, a surplus of Rs. 89,967,892 had resulted in, and the improvement thereof had been 1823 per cent as compared with the year 2016. Nevertheless, when the employee remuneration, and the depreciation on non-current assets had been adjusted to the financial result, the contribution of the Board for the year 2013 amounting to Rs. 180,968,362 had continuously increased up to Rs. 332,983,533 by the year 2015, but decreased to Rs. 240,115,107 in the year under review. The contribution had again increased up to Rs. 304,945,902 in the year under review

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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The following observations are made.

- (a.) Approval of the Board of Directors had not been obtained in terms of Section 5.1.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, on the Strategic Plan prepared by the Board for 2016-2018, and a copy of the updated Strategic Plan had not been submitted to the Department of Public Enterprises prior to 15 days of the commencement of the financial year.
- (b.) In terms of Section 4 of the Public Finance Circular, No. 01/2014 of the Ministry of Finance and Planning, dated 17 February 2014, the regulatory institutions should prepare an Action Plan by including activities with a long-term vision to achieve the objectives set out in the Act. However, the components such as, Government grants, budget with earnings and total expenditure, results expected from each activity, and plan on the imprest requirements relating to the activities executed through budget allocations provisioned by the Treasury, had not been included in the Action Plan prepared by the Board for the year 2017 in terms of the Circular.

#### **4.1.2 Functionality and Review**

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The following observations are made on the achievement of objectives of the Board in the year under review.

- (a.) According to the Action Plan of the Board, a sum of Rs. 104,000,000 had been allocated for the implementation of 05 development programmes namely : tea factory modernization subsidy scheme, tea replanting subsidy scheme, programme for the reduction of post-harvest damages, awareness programmes, and registration of tea lands. The following observations are made in this connection.
  - (i) Although a sum of Rs. 40,000,000 had been allocated for the modernization of 70 factories under the tea factory modernization subsidy scheme, only 13 factories had been modernized in the year under review by spending a sum of Rs. 7,834,287 indicating 18 per cent of the number of factories expected to have been provided with subsidies.
  - (ii) A sum of Rs. 40,000,000 had been allocated under the tea replanting subsidy scheme to cultivate 250 hectares of land in the year under review, but according to the progress report of the Board, only a sum of Rs. 9,658,854 had been spent to cultivate 177.64 hectares of land. As such, the financial and physical progress that could be achieved, had been 24 per cent and 71 per cent respectively.

- (b.) Details on the export and re-export of locally produced tea relating to the year under review and two preceding years, are as follows.

Description	2017 Kg.	2016 Kg.	2015 Kg.
Export of Tea			
Domestic Tea	278,195,150	280,874,278	298,906,481
Imported Tea	10,789,117	7,896,402	8,029,940
Overall Export of Tea	<u>288,984,267</u>	<u>288,770,680</u>	<u>306,936,421</u>
Import of Tea	7,679,588	4,660,293	4,906,862

The following observations are made in this connection.

- (i) Despite the increase in overall tea export in the year under review as compared to the preceding year, the export of locally produced tea had dropped by 2,679,128 Kg. The quantity of tea imported for re-exporting had increased by 65 per cent as against the preceding year, and accordingly, the quantity of re-exported tea had increased by 2,892,715 indicating 43 per cent as well.
- (ii) Irrespective of the sum amounting to Rs. 177,315,426 spent on the brand name promotion programme launched by the Board, the export of locally produced tea had decreased. As such, it was observed that the identification of new markets and achievement of export promotion targets had ended up in failure.
- (c.) In accordance with the advertisement published in the Gazette, No. 1677/14, dated 27 October 2010 on promoting tea and market strategies, it had been planned to carry out a global promotional campaign for Ceylon tea from the year 2015 to 2018 by spending a sum of Rs. 8 billion out of the taxes collected up to 31 December 2018 from tea exporters. The following observations are made in this connection.

- (i) The said promotional programme had been scheduled to be carried out during 2012-2016 focusing on production and creative activities, public relations, and affairs relating to media, but the programme had been put off for the year 2018 due to failure in carrying out the programme within the scheduled period.

Moreover, an agreement had been entered into on 06 November 2015 to the value of US \$ 2,260,000 (Rs. 328,423,200) with a private company for a period of one year with respect to production and creative activities. A sum of Rs. 195,521,240 had been paid thereon by the end of the year under review, but due to failure in assigning an institution to media in parallel therewith, the tasks expected had not been fulfilled.

- (ii) Although 18 months had elapsed by the end of the year under review since the completion of creative activities of the TV commercial in April 2016, no action had been taken to air the said commercial. As such, in the context of carrying out the promotional activities in the future by making use of the said commercial, it was observed that the possibility of the creation becoming productive in line with the existing market environment, was minimal.
- (d.) When subsidizing the factories affected by floods in the wake of torrential rains that had prevailed in the year under review, a sum of Rs. 819,567 had been overpaid for 2 factories as payments had been made for damaged stocks in excess of the ones shown in monthly reports (TC 5) furnished by the factories.
- (e.) In order to safeguard the quality and reputation of the produced tea, it is a timely requirement to test the tea being exported for pesticide residues. However, no action had been taken by the laboratory of the Board to carry out such tests.

#### **4.2 Management Activities**

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The following observations are made.

- (a.) The sum of Rs. 3,489,773 granted to a private factory in order to be paid to the suppliers of tea leaves in view of maintaining a minimum price of Rs. 80 for raw tea leaves in the year 2015, had not been given to the suppliers of tea leaves, but the said amount had not been recovered by the Board even up to the end of the year under review.
- (b.) A decision had been reached by the Janatha Estate Development Board and the Tea Board as per the directive of the meeting of COPA held on 19 June 2012 to write off the balance and acquire the ownership of the “Ceylon Tea Museum” belonging to the Janatha Estate Development Board being maintained in Hanthana in substitution for the sum of Rs. 25,000,000 receivable from the Janatha Estate Development Board. Nevertheless, the said process had not been completed even up to 31 March 2018.
- (c.) A sum of Rs. 18,005,828 saved from the subsidy amounting to Rs. 6,738,000,000 received by the Board from the Treasury in order to be paid to the suppliers of tea leaves with a view to maintaining a minimum price of Rs. 80 for tea leaves in the year 2015, had been retained up to the end of the year under review since 31 December 2015 without being remitted to the Treasury.
- (d.) Action had not been taken even up to the end of the year to settle the advance of Rs. 15,630,566 granted in the year under review for expenses of the Tea Bureau in China.



#### **4.3 Operating Activities**

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Action had been taken in the year under review to cease the operations and close down the tea stall established at the Colombo racecourse at the expense of Rs. 58,368,794 in the year 2013. Since the inception of this project commenced as a strategy to promote tea, the Board had not possessed a methodology that could have productively been implemented in the future by taking into consideration the target market and the oncoming trends. Hence, the project could not be implemented in a productive manner, and the Board had to sustain a financial loss of Rs. 42,994,720 due to the project.

#### **4.4 Underutilization of Funds**

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The following observations are made.

- (a.) In spite of the balance exceeding Rs. 3,000,000 of the current account belonging to the foreign promotion unit located in United Arab Emirates (Dubai) in respect of every month from January to December of the year under review, no action had been taken to invest that sum in a productive manner.
- (b.) The balance totalling Rs. 760,545 with respect to 05 foreign bank accounts belonging to the Board, had remained idle over a period of 01 to 05 years.

#### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a.) The pesticide chemical analyzer purchased in the year 2009 by spending a sum of Rs. 32,132,088, and the CP-3800 GAS Chromatography machine purchased at a sum of Rs. 5,592,421 had not been made use of up to the year under review as the machines had not complied with the specifications of the Board and the suppliers had not provided a training as to how to operate the machines.
- (b.) As the tea sales center had been closed down, office equipment, furniture and fittings, and computers purchased in the year 2015 to the value of Rs. 5,140,707 had remained idle without being used.

#### **4.6 Uneconomic Transactions**

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The following observations are made.

- (a.) Although a sum of Rs. 330,850 had been paid to a private company as an advance in the year 2013 for developing a website, that activity had been abandoned by the end of the year under review.

- (b.) Having entered into an agreement with a consultant in the year 2015 for formulating a new Act by combining the Sri Lanka Tea Board Law, No. 14 of 1975, Tea Control Act, No.51 of 1957, and Tea (Tax and Control of Export) Act No. 16 of 1959, a sum of Rs. 105,000 had been paid as consultancy fees, but the said activity had been abandoned in the year under review in the wake of the decision taken by the Board of Directors not to combine the Acts.
- (c.) The tea sales center maintained by the Board at the Racecourse grounds had remained closed since the beginning of the year under review, but due to delay in handing over the building in which the sales center had been maintained, a sum totalling Rs. 1,140,544 had been incurred in the year under review as monthly rentals.

#### **4.7 Commencement of Projects on the Lands not Taken Over Properly**

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Ownership of the land belonging to the Kelaniveli Plantations Pvt Ltd where the regional office in Nuwara Eliya was being built, and the land belonging to the Paddy Marketing Board where the regional office in Bandarawela was located, were not vested in the Board up to the date of this report. A sum of Rs. 114,335,962 was incurred on the construction works by the end of the year under review.

#### **4.8 Staff Administration**

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The approved cadre of the Board had been 317 whereas the actual number had been 281. As for the senior, tertiary and secondary levels, three, 04 and 33 vacancies existed respectively whilst vacancies had existed for 09 officers of the primary level. One officer each for a post in the senior level not in the approved cadre and a post in the tertiary level, with 11 officers for 05 posts in the secondary level had been employed. Five officers had been appointed under designations not included in the approved cadre of the Board in the year under review.

#### **4.9 Utilization of Vehicles**

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Two Cabs belonging to the Board that had been withdrawn from use, had been given to the National Institute of Plantation Management in the year under review on the basis of paying the assessed value thereof to the Board in installments. Nonetheless, no agreement had been entered into in that connection up to the date of the report, and the said Institute had not paid the installments as well.

#### **4.10 Legal Cases Instituted by or against the Board**

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The following observations are made.

- (a.) The owner of the building used by the Tea Commissioner's Division had appointed an Arbitrator against the Board in October 2008 claiming a sum of Rs. 4,900,000 on the damages caused to the building and failure to restore the premises owing thereto , thus preventing the building from being leased out to another party. Accordingly, a verdict had been returned by the Arbitrator that a total of Rs. 13,828,600 including the said amount along with an annual fee of 20 per cent be paid as at 14 November 2012. However, the Board had filed an appeal against that decision.
- (b.) Seven cases had been filed by 06 external institutions against the Board whereas 3 cases had been filed by the staff at various courts.

### **5. Sustainable Development**

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#### **5.1 Achievement of the Sustainable Development Goals**

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Every public institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. The Sri Lanka Tea Board had become aware as to how to act on the activities coming under their purview in the year under review. The following observations are made in this connection.

- (a.) The activities identified by the Board as being necessary for achieving the sustainable development goals, had not been included in the Annual Plan whilst the financial provision required for the execution of those activities had not been included in the budget annually.
- (b.) Due to failure in cooperating with the other institutions properly when preparing to achieve the sustainable development goals, the process of planning to achieve the targeted goals and the preparedness had been observed to be extremely weak.

### **6. Accountability and Good Governance**

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#### **6.1 Internal Audit**

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An Internal Audit Unit had been established in the Board though, an adequate staff had not been assigned thereto.

## **6.2 Procurement and Contract Process**

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### **6.2.1 Procurements**

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The following observations are made on the preparation of Procurement Plan.

- (a.) In terms of Section 4.2 of the National Procurement Agency Circular, No. 08, dated 25 January 2006, the procurement activities expected for a period of at least 03 years should be listed and the main Procurement Plan should be prepared by the procurement entity. However, it had not been done so.
- (b.) The Procurement Plan should be prepared synonymous with the expected value of capital expenses to be incurred in accordance with the budget. However, a Procurement Plan had been prepared to the value of Rs. 401.694 million despite the budget provision of Rs. 379.381 million allocated for the acquisition of capital assets.
- (c.) A contract valued at Rs. 8,620,000 had been awarded on 09 October 2017 to develop a computer software in view of computerizing the tea land registration programme implemented by the Tea Commissioner's Division. However, it had not been included in the Procurement Plan.
- (d.) In order to fulfil the transport requirements, the Board had obtained the service of a private transport company without following the procedures of the Government Procurement Guidelines-2006. An expenditure of Rs. 2,813,578 had been incurred thereon in the year under review.

## **6.3 Budgetary Control**

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As variances ranging from 12 per cent to 58 per cent were observed between the budgeted and actual values in the year under review, it was observed that the budget had not been made use of as an effective instrument of management control.

## **6.4 Unresolved Audit Paragraphs**

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When revising the registration fees, fees for renewal of registration, and license fees in terms of Section 49 of the Tea Control Act, No.51 of 1957, and Section 25(3) of the Sri Lanka Tea Board Law, No. 14 of 1975, it is required to obtain approval of the Cabinet and publish in the Gazette of the Democratic Socialist Republic of Sri Lanka. But, despite being pointed out in the reports of the Auditor General from the year 2014 that it had not been so done in revising the fees since 29 July 2010, no action had been taken for rectification up to the year under review.

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

Area of Systems and Controls	Observation
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(a.) Control of Balances Receivable or Payable	Failure to recover and settle the balances continued to exist over extensive periods.
(b.) Control of Assets	Failure to take over the assets properly and utilize the assets that remained idle.
(c.) Staff Administration	Making recruitments to the posts not included in the approved cadre.