

Tea Small Holdings Development Authority – 2017

The audit of financial statements of the Tea Small Holdings Development Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Authority on 31 May 2018.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 2017 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 Standard

As the useful life of non-current assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, assets valued at Rs.41,661,551 were being further used though they had been fully depreciated. The estimated error thereon had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

As a result of non-payment a vehicle loan given to the Teashakthi Fund under the rescheduled loan by the Authority, that vehicle had been sold by the Authority to recover the loan balance and the profit earned from that sale amounting Rs.672,000 had been shown as payable to the Teashakthi Fund.

2.2.3 Unexplained Differences

Although 7 accounts receivable balances as at the last date of the year under review totalled Rs.89,112,762, that value in accordance with confirmation letters made available amounted to Rs.89,849,404, thus observing a difference of Rs.736,642.

2.3 Accounts Receivable and Payable

The value of accounts receivable elapsed for more than 5 years as at the end of the year amounted to Rs.21,071,890 and that balance had been shown continuously in the accounts without taking action to recover same.

The following observations are made in respect of balances totalling Rs.17,016,838 of the above balance.

- (a) Out of the money given for the purchase of fertilizer, fertilizer sprinkling machines and sales to Small Tea Holdings Development Societies, a sum of Rs.4,436,965 was receivable and it had remained for more than 12 years.
- (b) A sum of Rs.6,663,284 was receivable to the Authority as at the end of the year under review in respect of giving motor vehicles on credit basis to Tea Smallholdings Societies in the year 1998 and action had not been taken to recover that balance. In addition, out of the money given to 4 factories in the same year for the purchase of colour differentiation machines, a sum of Rs.5,916,589 was receivable. As non-availability of formal agreements, the recovery of debts could accompanying problems.

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 deficit of Rs.129,532,198 as against the Surplus of Rs.3,322,996 for the preceding year thus indicating a deterioration of Rs.132,855,194 in the financial results of the year under review as compared with the preceding year. Increase of development expenses by Rs.81,224,000 in the year under review had mainly attributed to this deterioration.

In analyzing the financial results of the year under review and the preceding 4 years, the deficit existed in the year 2015 had become a surplus in the year 2016 but it had become a deficit again in the year under review. However, when the employees remunerations, depreciation on non-current assets and taxes paid to the government had been readjusted to the financial results, the contribution of the Authority had been a favourable value from 2013 to 2017 but the contribution of Rs.420,947,000 in the year 2014 had gradually deteriorated in the year 2017 up to Rs.127,723,000.

3.2 Analytical Financial Review

According to the statement of financial position presented, the current ratio of the Authority in the years 2017 and 2016 had been 0.86:1 and 1.65:1 respectively. Accordingly, the current ratio had deteriorated in the year under review as compared with that of the preceding year.

3.3 Legal cases initiated against or by the Authority

Six cases had been filled by the employees of the Authority against the Authority and 2 cases had been filed by the Authority against employees. Those cases were pending even up to the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

The following observations are made in respect of the achievement of objectives established by the Authority.

- (a) Of the tea replanting target of 1040 hectares in the year under review, only 748 hectares had been achieved. Even though, the permits issued by the Authority to obtain tea re-planting subsidy since the year 2015 had increased annually, inclination of tea replanting had dropped after landscaping and soil conservation by tea planters. The main reason therefor was that the Authority had not taken sufficient action to incline the subsidy holders thereon.
- (b) A sum of Rs.11,701,644 had been paid in the year under review as subsidies for crops rehabilitation and it had been an increase of 40 per cent as compared with the previous year. However, of that subsidy, 912,500 plants had been targeted for the crops rehabilitation during the year under review but only 564,145 plants had been rehabilitated, showing a progress of only 62 per cent.
- (c) Even though, it was targeted to issue 1035 metric tons of dolomite to farmers in the year under review, only 25.3 metric tons, representing 2.4 per cent had been supplied to farmers. Accordingly, sufficient steps had not been taken to improve the inclination of small tea holders for the use of dolomite for a successful crop as the use of dolomite for a successful crop was very important for plantation.
- (d) A sum of Rs.16,561,557 had been spent during the year under review for the implementation of extension and consultancy services programs and the soil management programs and it had been an increase by Rs.9,766,842 or 143 per cent as compared with that of the previous year. However, the number of training programs conducted according to the progress report of the Authority in the year under review had dropped by 4 per cent as compared with the previous year.
- (e) Even though, the Authority had received a sum of Rs.914,568,156 for the distribution of fertilizer subsidy among the tea small holders so as to minimize the production cost of tea small holders, the amount issued to the tea planters during the year had been Rs.902,019,098. The balance of Rs.12,549,058 had been retained in the Head office and the regional offices without being issued. Action should be taken by the Authority according to the Circular No.MP1/DEV.01/08/FERTILIZER/01 dated 03 June 2016 of the Secretary to the Ministry of Plantations. Contraventions thereto are as follows.

- (i) Even though, the minimum and the maximum extent of lands available for giving fertilizer subsidy should be 20 perches and less than one hectare respectively in terms of paragraph 2 of the circular, contrary to that, the Galle Regional Office had paid a sum of Rs.100,696.
 - (ii) In terms of the paragraph 7 of the circular, payments had to be made after being established the correctness of information stated in the applications forwarded by farmers for obtaining subsidies. As a result of not being done so, cheques totalling Rs.21,183,489 issued had been dishonoured by banks.
 - (iii) A list of planters including their particulars who had been qualified for subsidies had not been published in the Authority's website in terms of paragraph 9 of the circular.
- (e) The following observations are made in respect of the maintenance of institutional tea nurseries by the Authority in order to purchase quality tea plants in purchasing plants by small tea holders and to control market prices.
- (i) Even though, the dead percentage of tea plants in the nurseries should be maintained at a level less than 10 per cent in terms of paragraph 4.2 of the Nurseries Management Instructions, the dead plant percentages in Hadigalle, Walahanduwa and Mawarala nurseries at the end of the year under review had been 25.7 per cent 31.4 per cent and 35.6 per cent respectively.
 - (ii) According to the instructions letter No. 035/4/1 dated 22 September 2005 of the Deputy General Manager (extension), of the plants planted in the nurseries of the Authority, the minimum sales should be 85 per cent. Nevertheless, 5 nurseries out of 8 maintained by the Authority at the end of the year 2016/ 2017 had failed to reach that sale percentages and the sales of those nurseries had been 48 per cent, 49 per cent, 64 per cent, 74 per cent and 77 per cent.
 - (iii) It was emphasised in the tea nurseries management instructions manual that at least the expenditure incurred on production should be covered even though nurseries are operated for the purpose of providing services. However, three tea nurseries at Hadigalla, Walahandawa and Mawarala had incurred an expenditure of Rs.1,045,513 in excess of the revenue.
- (f) The Authority operates and supervises commercial tea nurseries of external parties registered with the Authority for the purpose of obtaining quality tea plants by tea small holders to increase the tea production and productivity. The number of permits issued for commercial tea nurseries in the years 2015, 2016 and 2017 amounted to 701, 487 and 449 respectively, being decreasing gradually. Accordingly, it was observed that the proper supervision over commercial tea nurseries had not been made by the Authority.

4.2 Management Activities

The following observations are made.

- (a) Within the period of 3 years from the date of issue of plantation subsidy to Tea small holders, growing of tea plants should be completed but there were instances where it was failed to complete planting. In that case, the Authority should take action to recover the subsidies already paid but the Authority had not taken necessary action in respect of tea small holders who had obtained the first 2nd and the 3rd installments and abandoned plantation subsequently or who had not sent plantation records.
- (b) Action had not been taken to remit taxes, on fixed deposit interest income of Rs.8,494,376 having being recognized, to the Department of Inland Revenue.
- (c) Even though, payment of gratuities should be made within 30 days in terms of payment of gratuities Act No.12 of 1983, a surcharge of Rs.74,602 had been paid by the Authority due to delay in paying gratuities to an officer who had retired on 17 July 2017.
- (d) Action had not been taken to vest and account the ownership of lands belonged to Walahanduwa sub-office, nursery and the mother plantation extension centre at Akmeemana attached to the Galle Regional Office of the Authority. Furthermore, two motor cycles belonged to the Ministry of Plantation Industries used by the Authority but action had not been taken get the ownership of them transferred in the name of the Authority even by the end of the year under review.

4.3 Idle and Under-utilization Assets

Four official quarters belonged to the Authority which were in repairable condition had been idle without being used for 5 years and action had not been taken to get it repaired and used.

4.4 Commencement of projects in the lands/ properties not legally vested

Action had not been taken to vest the ownership of lands in 4 regional offices valued at Rs.23,280,986 and the buildings valued at Rs.58,220,553 had been constructed in those lands by the end of the year under review.

4.5 Resources of the Authority given to other government entities

Three vehicles belonged to the Authority had been released to the Ministry of Plantation Industries and a sum of Rs.250,150 had been spent thereon in the year under review.

4.6 Personnel Administration

According to the information made available by the Authority, the approved cadre and the actual cadre as at 31 December 2017 had been 459 and 480 respectively. Further, 8 posts, personal only to the holder of the post had been approved by the Department of Management Services. The following observations are made in this regard.

- (a) Posts of Manager (Development), Manager (Training) since the year 2014 and the posts of Information Technology Officer and the Technology Officer since 6 months had fallen vacant.
- (b) Without the approval of the Department of Management Services, the Authority had recruited 51 employees for the posts of Management Assistants (MA 1-2) drivers, office Security Assistants on casual, check roll and contract basis in the year under review and a sum of Rs.7,900,689 had been paid as salaries during the year under review.
- (c) According to the annual report of the Authority, 1000 there should be planters per 01 extension officer for an effective extension service. However, that ratio in the year under review was 1:2751. Therefore, being supervised a large number of planters by one extension officer had an obstacle to an effective extension service.
- (d) Action had not been taken in terms of Sections 13.1.2 and 13.4 of Chapter II of the Establishments Code in recruiting for the acting post of Manager (Development) and Manager (Human Resources).
- (e) Under the Management Services Circular No.30 of 22 September 2006, the Assistant Project Manager should be placed in the 11th salary step of the Junior Management Service JM (1-1) (11) category and the salary increments earned should be given by using salary steps stated under column meant for promotions not being received, in the absorption for a new grade. Nevertheless, as action had not been taken accordingly in the payment of salaries to this officer, salaries had been over paid.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

Every public entity should act in accordance with the United Nations 2030 agenda on Sustainable Development and the Authority was aware about how to act in respect of functions come under the scope of the Tea Small Holdings Development Authority relating to the year under review. The following observations are made in this connection.

- (a) Functions recognized by the Authority to reach Sustainable targets had not been included in the annual plan and the financial provisions required for the achievement of these tasks had not been annually included in the budget.

- (b) As a proper coordination with other related entities had not been maintained in preparing for reaching Sustainable Development targets, it was observed that planning and preparedness process for reaching targets had been very slow.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

The financial statements should be presented for audit within 60 days after the closure of the financial year in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. But the financial statements for the year under review had been presented to audit on 23 March 2018.

6.2 Procurements and Contract Process

6.2.1 Procurements

The following observations are made.

- (a) According to the Guideline 4.2.1 (b) of the Government Procurement Guidelines No.8 of 25 January 2006, anticipate procurement functions should be listed in the master procurement plan at least for a period of 3 years but action had not been taken accordingly. Moreover, the master Procurement Plan should be periodically, not more than the period of 6 months updated in terms of Guideline 4.2.1 (e) but action had not been taken accordingly.
- (b) Six contracts, the total value of Rs.5,948,591 and the purchase of furniture and equipment valued at Rs.590,700 performed during the year under review had not been included in the Procurement Plan prepared for the year under review by the Authority and the constructions valued at Rs.14.8 million included in the Procurement Plan had not been implemented.
- (c) Even though, the approval of the Chief Accounting Officer should be obtained before awarding the contract according to the decision of the Departmental Procurement Committee in terms of Section 2.14.1 of the Procurement manual, it had not been so done in the purchase of a motor vehicle at Rs.12,000,000 for 5 years under the operating leasing method.
- (d) In terms of Guideline 5.6.1 and section 2.14.1 of the Procurement Guidelines, specifications for goods to be procured should be prepared in order to achieve the Procurement objectives. However, specifications had been prepared after calling for bids for the purchase of office equipment valued at Rs.609,348.

- (e) The following observations are made relating to the purchase of agro-equipment valued at Rs.100,390,089 to be distributed among the farmers in the Nuwaraeliya District.
- (i) A person with the knowledge of relevant subject had not been appointed to the Ministerial Procurement Committee appointed for the purchase of agro-equipment in terms of guideline 2.7.4 of the Procurement Manual. Moreover, according to the guideline 2.8.1 of the Procurement Guidelines, a specialist on the subject matter and at least one member with a sufficient knowledge in Procurements should be included in a Technical Evaluation Committee. Unless otherwise the Technical Evaluation Committee should obtain specialized instructions from an external member or from an institution but the Authority had not taken action in terms of the above guidelines.
 - (ii) In terms of Guideline 5.4.8 of the Procurement Guidelines, the performance bonds should be obtained before the order for goods is placed but action had not been taken accordingly.
 - (iii) All 20 water tanks with the capacity of 5000 liters had been stored in the centre belonged to the Regional Office even up to 13 March 2018.
 - (iv) According to the data of the Authority, the number of tea small holders in the Nuwaraeliya District by the year 2017 was 16,875, but the units of goods purchased was 38,970 and the number of undistributed units by the end of the year under review amounted to 13,467. Accordingly, it was observed that the number of units to be purchased being identified the requirement had not been determined.
- (f) In terms of the National Budget Circular No.01/2016 of 17 March 2016, motor vehicles can be obtained under the operating leasing method only new vehicles or unregistered vehicles which had run the distance of less than 1000 km. at the time of leasing. However, the vehicle obtained by the Authority under this method for 60 months at a monthly payment of Rs.200,000 had been registered in the name of a person.
- (g) Agreements had been entered into with a private entity for a sum of Rs.4,458,663 for the provision of day and night security services to the Head Office and the Hanthana Training Centre and for the provision of night security service to all regional offices in the year under review and a sum of Rs.5,011,149 had been paid therefor. However, a sum of Rs.329,819 to an another private security firm at Matara Regional Office and a sum of Rs.796,874 to the employees of the Authority for the supply of Security Service to the Kaluthara and Uva Regional Offices had been paid.

6.2.2 Weaknesses in the Contract Administration

Garden ornamentation at the Head Office premises had been carried out in the previous year, spending a sum of Rs. 4,366,397. In laying rubbles, soil stratum had not been sufficiently leveled and the work not carried out at a proper standard and as such rubbles were sunk. However, a sum of Rs.164,500 had been paid to the first contractor for re-laying rubbles in the year under review without being set off that amount from the retention money.

6.3 Budgetary Control

The following observations are made.

- (a) As variations ranging from 67 per cent to 86 per cent had been observed between the budgeted income and actual income, the budget had not been made use of as an effective instrument of management control.
- (b) Out of a sum of Rs.18.04 million allocated for crops rehabilitation subsidy according to the budget, it was proposed and approved to obtain Rs.0.75 million, but it had not been included in the revised budget.

7. 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

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|------------------------------|---|
| (a) Personnel Administration | The existence of vacancies in the posts, recruitments made without proper approval. |
| (b) Payment of Subsidies | Follow up action not done after being given subsidies. |
| (c) Assets Control | Assets not properly vested and the useful life of assets not reviewed. |