

## **Tea Research Board – 2017**

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The audit of financial statements of the Tea Research Board 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 statement of cash flows for the year then ended and the 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 Research Board Act (incorporated) No. 52 of 1993. My comments and observations, which I consider should be published with the Annual Report of Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Responsibility of the Management for Financial Statements**

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Management is responsible for preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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 judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In marking 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. Section 3 and 4 of the Financial 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 paragraphs 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 Tea Research Board 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 Accounts**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard -07**

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The following observations are made.

- a) Accounting to the paragraph 65 of the standard, due to not being reviewed the useful life time of the non-current assets annually, assets valued as Rs.54, 850,144 were further being used. However actions had not been taken to revise the estimated error thereon as per the Sri Lanka Public Sector Accounting Standard 3.
- b) According to the paragraph 72 of the standard, Land and Building are separable assets and they should be classified separately. However Land and buildings valued at Rs.232,273,791 shown in the financial statements as at 31 December of the year under review had not been classified and accounted accordingly.

#### **2.2.2 Accounting Policies**

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According to the Sri Lanka Public Sector Accounting Standard 03, if any specific transaction was not covered by the accounting system which was used to prepare the financial statements, the most suitable actions should be taken and accounting policy should be prepared and adopted in this regard. However, accounting policies had not been prepared by the Board in connection with following transactions.

- a) Amortise and take in to account intangible assets valued at Rs.2,404,163 as at the end of the year under review.
- b) Classification of tea cultivation at the cost of Rs.132,362,100 as at the end of the year under review as matured and immature and identify separately and taken in to account considering the biological condition of the tea cultivation.

### 2.2.3 Accounting Deficiencies

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The following observations are made.

- a) Although a sum of Rs.42, 973,544 had been taken into revenue as capital grant for expenses of research and development of the year under review, the expenditure incurred thereon was Rs.42, 701,640. As a result a sum of Rs.271, 904 in excess had been taken in to the revenue thus the deficit of the Board had been understated by the same amount.
- b) Instead of being disclosed in the accounts the unsold finished tea of factories as the closing stock, it had been taken into accounts as sales for debt, As a result sales income of tea for the year and the debtor balance had been overstated by Rs.6,201,289.
- c) Lands of the St.Joachim Estate had been released to the National Gem and Jewellery Authority, to auction for mining gems and a sum of Rs.239, 591 receivable there on to the Board from the Authority had not been taken in to account. Further, informations had not been disclosed in the financial statements regarding those lands.
- d) A sum of Rs.37, 316,860 which was not remitted to the employees provident fund on behalf of the staff and labourers due to the calculations not being done adding the cost of living to the basic salary when calculating employees provident fund contribution for the period from the year 2006 to 2012, had been taken in to accounts as an expenditure of the year when remitting in the year under review instead of being entered as prior year adjustments.
- e) Although the plant and equipment of the Lamilia tea factory had been disposed by the Board at Rs.1,010,100 in the year 2003, the cost of those plant and equipment had not been written off from the accounts even up to the end of the year under review.
- f) Although 5,654 trees had been recognized as biological assets of the lands belongs to the Board, the value had not been assessed and taken in to account.
- g) A sum of Rs.287, 200 incurred for repairing seats of the bus belongs to the Board and a sum of Rs.252,126 incurred for purchasing spare parts to the bus had been capitalized instead of being taken in to account as expenditure.
- h) According to the Board of survey report of the St. Joachim Tea Factory, the value of the unsold finished tea stock as at the end of the year under review was Rs.12,866,373. However, the value of the physical stock as at the date of preparing the account had been taken in to account as Rs.2, 246,711.

#### 2.2.4 Unexplained Differences

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According to the accounts of St.Koombs Tea factory a sum of Rs.1, 805,780 should be recovered from the Tea Board whilst according to the account of the Tea Board the payable amount was Rs.1,114,630 thus a difference of Rs.691,150 was observed.

#### 2.2.5 Lack of Evidence for Audit

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The evidence shown against to the following accounts items were not furnished to audit.

<b>Account Item</b>	<b>Value</b>	<b>Evidence not presented</b>
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	<b>Rs.</b>	
Staff loan	40,334	Detailed schedules/ conformation of balances.
Creditors	532,872	Detailed schedules/ conformation of balances.
Balances receivable from the Tea Small Holdings Development Authority	649,681	Conformation documents.

#### 2.3 Accounts Receivable and Payable

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The following observations are made.

- a) Although a sum of Rs.1,157,574 included in the debtor balance of Rs.6,195,377 as at the end of the year under review had exceeded 5 years, recovering of those balances was in a feeble condition.
- b) Actions had not been taken to recover loan and advance of Rs.2,303,788 receivable from the employees more than a period of 5 years which was included in the accounts of St. Koombs Tea Estate.

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

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Instances of non- compliance with laws, rules and regulations observed in audit are given below.

<b>Reference to Laws, Rules, Regulations and Management decisions</b>	<b>Non - Compliance</b>
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a) Establishment Code of the Democratic Socialist Republic of Sri Lanka. Section 13.3 of the Chapter II	Although an acting post should be appointed on temporary basis until the permanent appointment is done, the posts of residential engineer, chief accountant and 04 posts of

divisional heads of the board had been appointed on acting basis from 03 years to 07 years. A sum of Rs.3,722,297 had been paid as acting allowances during the previous 07 years by the Board.

- b) Paragraph 9.14 of the Public Enterprises Circular PED/12 dated 02 June 2003.

Although a relevant procedure manual for execution of laws and rules for human resources management, should be prepared and approval of the secretary to the Treasury should be obtained, actions had not been taken by the Board accordingly.

- c) Paragraph 3.1 of the National Library and Documentation Board Circular No.2014/සුස/1/2016 dated 22 December 2016.

Physical verification had not been done relating to the books of the head office library of the Board since the year 1978. Further 62 books had not been returned, out of the books borrowed for a period of previous 32 years (1985-2017).

## **2.5 Transactions not confirmed by an Adequate Authority**

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Although the Treasury approval should be obtained before paying any financial benefit as per the Public Finance Circular PF/PE/05 dated 11 January 2000, a sum of Rs.419,086 had been paid to 11 officers who retired in the year under review for saved vacation leave without obtaining the approval of the Treasury.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year under review was a deficit of Rs.5,831,737 whilst as compared with the corresponding deficit for the previous year amounting to Rs.6,372,746 thus an increase of Rs.541,009 had been shown in the financial result of the year under review. Even though the expenditure of the year under review had increased by Rs.94,965,000 as compared with the previous year, increase of income by Rs.95,485,000 had mainly effected to the improvement of the financial result.

In the analysis of the financial results for 04 preceding years and the year under review a continuous deficit had existed from the year 2013 to the year 2017. However, considering the adjustments of employees remuneration and depreciation for non-current assets made to the financial result the contribution had increased continuously from Rs.163,722,445 for the year 2013 to Rs.283,946,726 for the year 2017.

### **3.2 Legal cases filed against to the Board or by the Board**

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The following Observations are made.

- a) The Board had filed cases before 07 years in respect of violation of Bonds Valued at Rs.18,552,991 against to 05 Officers who had obtained foreign study leave with salary and did not come back to the island and those cases were being proceeded in the court even up to the end of the year under review.
- b) Two cases had been filed against to the Board by an external party for acquiring portions of land in the year 2012 as mentioned the board as the third defendant and by an employee of the board to restore the service in the year 2015.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Operating and Review**

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The Progress of the performance relating to the research and other activities implemented to achieve the objectives of the Tea Research Board is given below.

- a) According to the corporate plan for the years 2013-2017 there were 185 researches expected to be fulfilled. However 12 researchers commenced incurring a sum of Rs.12,472,481 out of the annual provision made for research and development activities by the General Treasury had been intercepted and 15 researches commenced incurring a sum of Rs.24,350,677 had been postponed. Although almost 03 years had been lapsed for interception and postponement of researches and actions had not been taken by the board to re-start them even up to the end of the year under review.
- b) Further actions such as advertising and obtaining patent had not been taken for commercialize and improvement of 10 value added tea products of which the researches had been completed by the bio- chemistry section of the board. (Tea wine, instant black tea, scented tea, instant milk tea , tea sauce, tea baby soap, tea seed oil, tea protein catching extract). As a result the results of those researches had not been released to the field.
- c) Although researches had been carried out relating to the matters such as reducing production cost, improving effectiveness of lands which the main problems of the tea field, solution had not been given by the Board for such issues even up to 31 August 2018.
- d) Out of the estimated twigs to be distributed annually up to the year under review, from the year 2015, the amount distributed was 58 per cent 59 per cent and 55 per cent respectively through the mother bush programme carried out to supply of twigs of new variances of tea cultivation implemented by the advisory and extension division. Therefore the progress of the programme had not been achieved the expected level.

e) The following observations are made in connection with the St. Koombs and St.Joachim tea factories managed by the Board.

i) The progress of labour productivity, usage of fire wood, and productivity of electric units of the St.Koombs and St. Joachim tea factories had not reached to the expected level in the year under review and the previous year.

Although the production cost per 1 killogram of tea was Rs.569 and Rs.603 respectively during the year under review, it was Rs.509 and Rs.487 in the previous year. Hence the production cost had increased compared with the previous year.

ii) The tea production rate of the St.Joachim factory during the year under review was 20.92 per cent. Hence the optimum production level of 21.5 Per cent could not be maintained.

iii) According to the action plan of the St.Joachim Tea Factory, the expected input of raw green leaves was 1,824,740 killogram and the actual input was 1, 242,696 killograms thus the adverse variation was 32 per cent. Hence the correspondung amount of finished tea had reduced.

iv) The green leaf yeild of the St.Joachim estate had been dropped during the year under review compared with the previous year thus a loss of Rs.3, 028,252 had been occured. Further the sales income of rubber of the estate was Rs.2, 556,840 and the expenditure was Rs.2, 620,973. Hence the income was not sufficient to cover the expenditure.

v) Although the nursery of St. Joachim estate had earned an income of Rs.62,807 in the previous year, the expenditure over income amounting to Rs.828,787 had been incurred for the year under review. Non-implementation of proper nursery control had mainly effected to this situation.

## 4.2 Management Activities

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The following observations are made.

a) The possibility to fullfil the relavant work should get confirmed before issuing an advance to an external party in some purpose. Without considering that an advance of Rs.110,124 had been issued to a private institution for purchasing a water purification unit. However it was identified that said institution had been closed and the advance had not been recovered even up to the end of the year under review.

b) Faddy land in extent of 8.74 hectares owned by the St. Joachim estate had been cultivated by tenant cultivators for a long period and actions had not been taken to recover the income receivable thereon.

- c) A sum of Rs.2, 382,613 had been shown under the intangible assets of the financial position statement as the International Standard Organization certificate. However it had expired in the year 2014 and actions had not been taken to written off said value from the books.
- d) Actions had not been taken to get transfer the rights of lands in which Deniyaya and Kottawa regional offices located and the southern center of the tea research board constructed even up to 30 June 2018.

#### **4.3 Apperent Irregularities**

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According to the report of the Ministry internal auditor, it was observed that financial irregularity of Rs.8,085,212 had been done by the cashier of the outlet as at 31 December of the year under review due to the weaknesses of the internal control in connection with the banking procedure of sales income of the St. Koombs tea sales outlet.

#### **4.4 Fund Utilization**

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A sum of Rs.359,975 received from the Tea Board in the previous year for re-cultivation of tea had not been utilized for the relevant purpose, even up to the end of the year under review.

#### **4.5 Idle and Under Utilized Assets**

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The following observation are made.

- a) Out of the official residence belong to the Board, 13 “D” group residence and 1 “C” group residence had remained idle without being used.
- b) The machine capacity of the St.Koombs estate and St.Joachim estate was 8,000 kilograms and 15,000 kilograms of raw green tea leaf. However the actual utilization of those machines was 5,000 kilograms and 6,253 kilograms per day respectively thus the machines had been under utilized.
- c) The fuel operated green leaf drier had been remained idle in the St.Joachim factory as a result of using the machine operate by firewood. Further staks extractor of the factory had not been used since 04 years.
- d) The machines imported by the institute in 1982 incurring a sum of Rs.4,142,173 for processing tea had not been used for the relevant project and remained idle over number of years.

#### **4.6 Staff Administration**

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The approved cadre of the Board as at 31 December 2017 was 443 and the actual cadre was 257 thus 186 posts were vacant. The Following observations are made in this regard.

- a) Ninety four posts in non- executive level were vacant and vacancies of 26 and 18 posts relating to research and technical development officer and extension officers respectively had affected to fulfil the research and extension activities of the Board as planned.



- b) Six officers had been recruited for the post of officer in charge (OIC) which was not included in the approved cadre of the Board on acting basis and a sum of Rs.1, 241,371 had been paid as allowances from the year 2010 to the year under review.
- c) Although permanent posts had been given to 112 employees who were already employed under the temporary or casual basis as per the Public Administration Circular No.25/2014 dated 12 November 2014 (105 posts of primary grade and 7 management assistants) with effected on 24 October 2014, those posts had not been included in the approved cadre of the institute.

#### **4.7 Vehicle Administration**

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The engine of the lorry belongs to the Board had been completely repaired in the year under review incurring a sum of Rs.404,965. After the repair 5,000 kilometers should be driven as the season time. Nevertheless, only 3,237 kilometers had been driven and removed from use.

### **5. Sustainable Development**

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

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All statutory Institutions should be functioned in accordance with the 2030 Agenda for Sustainable Development adopted by the United Nations and the Tea Research Board had aware as to how to act with respect of activities under their perview for the year under review. The following observations are made in this regard.

- a) Activites identified by the institute to be achieved the sustainable goals had not been included in the action plan and the financial provision required to fulfil those activies had not been included in the annual budget.
- b) It was observed that the process of planning and pre- preparation for reaching targeted objectives was in a very slow level due to actions not being taken to coordinate with other institutions properly when preparing for reaching sustainable development goals.

### **6. Accountability and Good Governess**

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#### **6.1 Procurement**

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The following Observations are made.

- a) According to the guideline 4.2 of the Government Procurement Guideline, a master procurement plan should be prepared by the procument entity including the expected procurement activities at least for 03 years period. However actions had not been taken accordingly.

- b) According to the procurement supplementary No.19 dated 6 September 2010, the approval of the secretary to the line Ministry should be obtained for vehicle repairs exceeding Rs.200,000. Nevertheless, actions had not been taken accordingly in respect of 05 repairs carried out at Rs.2,235,424 during the year under review.

## 6.2 Budgetary Control

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Variations ranging from 11 per cent to 741 per cent were observed between the budgeted and actual income and expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6.3 Unresolved Audit Paragraphs

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Actions had not been taken to obtain the Treasury approval for perquisites such as leave, official residence, fees not being recovered for water and electricity which had given to the staff violating the circular provisions relevant for each subjects and other paralled institutions.

## 7. Systems and Controls

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Defficiencies 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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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a) Accounting	Fully depreciated assets not being revalued and accounted.
b) Assets Control	Actions not being taken to transfer the ownership and repairs not being properly done.
c) Maintaing Books and Records	Fixed Asset Register not being updated, Register relating to receipt books not being maintained as per the G.A.N. 20. Registers and records not being maintained for things kept in the safe.
d) Research Activities	Research activities not being managed properly and the results of the completed researches not being issued to the field.
e) Operational Control	Actions not being taken to calculate and recorded the number of trees of rubber and coconut estates.