

Janatha Estate Development Board – 2017

The audit of the operating activities of the Janatha Estate Development Board for the year ended 31 December 2017 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. The financial statements for the year 2017 that should be furnished in terms of Section 13(6) of the Finance Act had not been furnished even by the date of this report. My observations relating to the operation of the Board in the year under review which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 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.

2. Financial Statements

2.1 Presentation of Financial Statements

Even though the financial statements and the Draft Annual Report should be furnished to the Auditor General within 60 days after the close of the Year of Accounts in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Financial Statements and the Draft Annual Report of the year 2017 had not been furnished for audit even by the date of this Report.

2.2 Maintenance of Registers and Books

Even though the activities of the Board had been continuously maintained, the Books and the Registers relating to the year under review had not been completed.

2.3 Existence of Assets and Liabilities

Details on the Assets, Liabilities, Income and Expenditure stated in the financial statements as at 31 December 2016 prepared finally by the Board.

	Value

	Rs.
Non- current Assets	2,231,172,049
Current Assets	<u>686,456,256</u>
Total Assets	<u>2,917,628,305</u>

<u>Liabilities</u>	2,532,160,239
Current Liabilities	
Non- current Liabilities	<u>725,608,431</u>
Total Liabilities	3,257,768,670
Net Assets/ Ownership	<u>(340,140,365)</u>
	<u>2,917,628,305</u>
Total Income	571,588,867
Total Expenditure	<u>(1,135,549,881)</u>
Deficit	<u>(563,961,014)</u>

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

The following instances of non- compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non- compliance

- | Reference to Laws, Rules, Regulations and Management Decisions | Non- compliance |
|---|--|
| ----- | ----- |
| (a) Public Enterprises Circular No.PED/01/2015 of 25 May 2015 | A sum of Rs.4,430,160 had been paid as fuel and vehicle allowances in the year under review without the approval of the Secretary to the Ministry and on the approval of the Director for 07 Officers belonging to the MM Salary Category of the Board, not entitled to fuel and vehicle allowances as per the Circular. |
| (b) Public Finance Circular No.03/2015 of 14 July 2015. | Even though only Staff- Grade Officers can obtain an ad- hoc sub- imprest under a maximum amount of Rs.100,000 once, a sum of Rs.16,782,702 had been given as Advances to Non- Staff Grade Officers in 16 instances exceeding the relevant limit by the Consumer Division of the Board. |
| (c) Public Administration Circulars No.09/2009 of 16 April 2009 | Even though the arrival and the departure of all Public Servants should be noted by the Finger Print Machine, the Officer who holds the post of Manager (Forests) had not noted the arrival accordingly. |

3. Operating Review

3.1 Performance

3.1.1 Function and Performance

The following observations are made.

- (a) Even though the total amount of lands belonging to the 15 Tea Estates administered by the Board by the end of the year under review had been 10,155 hectares in extent, tea had been cultivated only in 2936 hectares in extent of lands. As such, 7219 hectares in extent, or 71 per cent of lands of the total amount of lands had not been used by the Land Acquisition Board of Review either for Tea Plantations or for the cultivation of any other subsidiary crop.
- (b) The Contribution of one kilogram of finished tea in 15 Tea estates administered by the Board had been taken a minus value in comparing on the Unit Contribution with the Cost of Production (COP) and the Natural Sales Average (NSA) of one kilogram of tea from the year 2015 to the year under review and it had remained from a sum of Rs.100 to a sum of Rs.594. As such, it had not been able to cover its cost by the Sales Income of a Production Unit of the Board.
- (c) The Minus Contribution of one kilogram of finished tea in Galaboda, Rahathungoda and Rockwood Tea Estates administered by the Board had been decreased by a value more than 50 per cent by the year under review as compared with the year 2015. As such, not using chemical fertilizer and weedicides from several years for Tea Plantations in the Estates of the Board had been the reason for the decrease of the tea leaves production.
- (d) Even though the Average Finished tea Yield per hectare had been 1594 kilograms as per the statistics issued for the Tea Plantation Industry in the year 2017 by the Ministry of Plantation Industries, the Annual Finished Tea Yield per hectare in 15 Estates of the Board remained ranging from 317 kilograms to 719 kilograms in the year under review. The number of tea plants remaining in a hectare in the Estates belonging to the Board remaining at a lower level and not initiating new cultivations had been the reasons in this connection.
- (e) The decrease in the tea leaves production in 14 Estates out of the 15 Estates remained ranging from 05 per cent to 35 per cent due to not applying chemical fertilizer necessary for the Tea Estates administered by the Board in the year under review as compared with the year 2015. Moreover, even though the amount of lands in which mattered tea had been cultivated, had been increased by 10 hectares in extent in the Levalon Estate in the year under review, the Annual Finished Tea Yield in a hectare had been decreased from 435 kilograms to 430 kilograms as compared with the year 2016.

- (f) Even though 127,368 kilograms of tea leaves valued at Rs.79,618,323 had been obtained in the year 2016 from the tea plantation located in 76 hectares in extent, of which the Annual Finished Tea Yield per hectare is less than 300 kilograms, out of the 3672 hectares in extent of the matured tea plantation lands remained in 13 remaining estates excluding the Levalon and Mahawila Estates out of the 15 tea plantations belonging to the Board in the year 2016, harvesting tea leaves in the relevant tea plantation lands had been defaulted in the year under review.
- (g) Lands with 1000 kilograms of yield had been categorized as “A”, lands with more than 500 kilograms and less than 1000 kilograms of yield had been categorized as “B” and lands with more than 300 kilograms and less than 500 kilograms of yield had been categorized as “CI”, as per the amount of 2936 hectares in extent of lands with matured tea maintained in the year under review by the Board and as per the Annual Finished Tea Yield received from a hectare of land. As such, the performance of the cultivated lands according to its classification in 15 Estates belonging to the Board appear below.
- (i) Even though the Finished Tea Production of a hectare of land with matured tea which belongs to the category (A) should be more than 1000 kilograms as per the classification, it could not be able to obtain at least the minimum yield of the relevant Classification of Lands due to that value being remained ranging from 333 kilograms to 901 kilograms in 13 estates administered by the Board.
- (ii) Even though the yield of Finished Tea of a hectare of land with matured tea belonging to (B) category should remain between 500- 999 kilograms as per the Classification of Lands of the Board, that value remained between 296- 466 kilograms in 10 estates. As such, it could not be able to obtain at least the minimum yield.
- (iii) Even though at least either 300 kilograms or more than that amount of finished tea should for lands with tea, one hectare in extent remaining under the CI category of land, that remained ranging from 146- 266 kilograms in 07 Estates in the Board in the year under review.
- (iv) Tea Plantations older than one hundred years being remained and not using chemical fertilizer and pesticides had been affected in not being able to obtain at least the minimum yield as per the Classification of Lands of the Board.

3.2 Management Activities

The following observations are made.

- (a) Even though lands, 861 hectares in extent had been acquired by 893 illegal residents in 14 Estates out of the 15 tea Estates administered by the Board by the year 2017, action had not been taken either to re- acquire the relevant lands or to give them on lease basis.
- (b) Action had not been taken to enter into new agreements relating to 18 lands of which agreed period had been expired by 31 December 2017 and the older lessors remained enjoying the land without paying the lease rent money.

- (c) One hundred and thirteen thousand, three hundred and eighteen kilograms of tea leaves of the Hanthana Estate had been sold to a sum of Rs.5,865,670 in the year 2016 to a private company by the Board and a sum of Rs.7,328,456 remained payable to the Elkaduwa Plantation Limited, a Public Company, for the purchase of tea leaves to the private company which purchased tea leaves by that instance. As such, it had been failed to recover a sum of Rs.5,865,670 by the Board even by the audit instance of 31 August 2018 due to selling tea leaves without inquiring on the purchaser.
- (d) The income earned by supplying tea leaves to the Sri Lanka Navy in the year 2017 by the Board had been a sum of Rs.80,151,700 and the opportunity to furnish quotations for obtaining the relevant order of supplying tea leaves for the year 2018 had been lost due to the Board being failed to furnish bids before the final time of accepting bids for the year 2018.

3.3 Idle Assets

The machines and other assets valued at Rs.18,898,835 remained inoperative by the end of the year under review remained in that Factory due to defaulting the production activities of the Tea Factory of the Hanthana Uduwela estate from 04 June 2016.

3.4 Transactions of Contentious Nature

Even though the production activities of the Hanthana Tea factory had been defaulted from 04 May 2016, mentioning that there is a risk in the occurrence of landslides, the Board of Directors had decided to give it on lease basis without taking action to reopen the Factory by carrying out a proper investigation either from the National Building Research Organization or from the Geological Survey and Mines Bureau. Even though an agreement had not been entered into with that Company, a sum of Rs.6,000,000 had been directly credited to a Bank Account belonging to the Board by the relevant Company on 31 July 2017. It had not been informed by the Depositor that, that money had been deposited, to the Board and it had been informed to the audit by the Director (Acting) of the Board by the Letter dated 06 July 2018 that it had been revealed on the Depositor in the Meeting of the Board of Directors held on 03 July 2018.

3.5 Personnel Administration

The following observations are made.

- (a) Thirty- five vacancies under two names of posts and 48 surpluses remained under two names of posts as at the end of the year under review under the Approved Cadre.
- (b) Officers had been recruited in the year under review for 10 posts not included in the Approved Cadre including the Manager (Forests) and the General Manager and the total of the salaries and allowances paid for those Officers in the year under review had been a sum of Rs.3,937,772.
- (c) The Officer appointed on contract basis for a period of one year from 16 October 2017 to the post of General Manager had been permanently appointed for the post of General Manager even without a probationary period by the Letter dated 30 March 2018 by the Chairman of the Board before the expiration of the relevant contract period.

- (d) Three Officers had been appointed in the year 2017 for the posts of Manager (Human Resources), Manager (Legal) and Assistant Legal Officer by the Board and, salaries had been paid by holding in on the 10th salary step in the HM 1-1 Salary Code instead of holding on a salary step of the MM 1-1 Salary Code, scheduled to the relevant posts.
- (e) Appointment had been made by holding on the 10th step of the salary category MM 1-1 for the post of Manager (Forests) for an Office serving as an Assistant Estate Superintendent by the Letter dated 02 December 2016 from 01 January 2017 with immediate effect and, 04 Employee Allowances not entitled to an Officer of that salary category and an Estate Bungalow located in the Hanthana Estate had been given to this Officer. The Board had to incur an expenditure amounting to Rs.1,144,456 in the year under review as Employee Allowances for this post which is not included in the Scheme of Recruitment.

4. Accountability and Good Governance

4.1 Internal Audit

An Internal Audit Unit consisting of three officers operates and even though it had been planned to carry out internal audits in a manner that covers 07 Divisions of the Head Office as per the Annual Audit Plan of the year under review, an audit test check had been carried out only in one Division of the Head Office.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a) Not maintaining the Source Registers	Maintaining tax invoice of the Land Division and not timely referring to the Accounts and Legal Divisions.
(b) Budgetary Control	Fulfilling the budgeted production targets and supervision remained at a lower level.
(c) Employee Management	Recruiting employees in addition to the Approved Cadre, making promotions and extension of the service periods contrary to the rules and regulations and not properly handing over responsibilities and duties to the employees.

