Sri Lanka State Plantations Corporation - 2017

The audit of operating activities of the Sri Lanka State Plantations Corporation 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 which should be presented in terms of Section 13 (6) of the Finance Act had not been presented even by the date of this report. My observations in respect of the operations of the Corporation of the year under review, which I consider should be presented to Parliament in terms of the 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

The Management is responsible for the preparation and fair presentation of these financial statements of the Corporation 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 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 draft Annual Report for the year 2017 had not been presented to Audit even by 20 October 2018.

2.2 Maintenance of Books of Accounts and Registers

Even though the activities of the Corporation had been continuously carried out, the Ledger Accounts, Books and Registers relating to the year under review had not been completed.

2.3 Existence of Assets and Liabilities

Details on assets, liabilities, income and expenditure stated in the last financial statements as at 31 December 2016 prepared by the Corporation are given below.

Assets	**Value**
	Rs.
Non-current Assets	5,807,471,144
Current Assets	270,498,973
Total Assets	6,077,970,117
Liabilities	

Current Liabilities	1,251,436,202
Non-current Liabilities	346,043,456
Total Liabilities	1,597,479,658
Net Assets/Title	4,480,490,459
Total Liabilities	6,077,970,117
Total Income	540,846,037
Total Expenditure	(691,762,857)
Deficit	(150,916,820)

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

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations and Management Decisions		Non-compliance
(a)	Public Finance Circular No.PED 01/2015 of 25 May 2015	(i)	Fuel allowances and transport allowances totalling Rs.182,520 and Rs.650,000 respectively had been paid to two officers in MM salary category who were not entitled for fuel allowances and vehicles while four Estate Superintendents were paid vehicle allowances totalling Rs.1,150,000 at Rs.50,000 per month during the year under review.
		(ii)	In terms of the Circular, the limit of monthly fuel allowance entitled for the Chairman, Working Director and the General Manager of the Corporation had been 170, 150 and 120 litres respectively. Nevertheless, a sum of Rs.208,504 had been paid for 1883 litres of fuel exceeding the said limit during the year under review .
(b)	Public Finance Circular No.3/2015 of 14 July 2015		Even though an adhoc sub imprest should be settled immediately after the completion of the purpose for which it was granted, advances totalling Rs.86,900 obtained in 13 instances during the year 2017 had been settled after a delay of period ranging from 30 days to 224 days.

3. Operating Review

3.1 Performance

3.1.1 Function and Review

The following observations are made.

(a) Even though an income of Rs.2,166,000,000 was expected to be earned from the sale of timber trees during the year under review, the income earned in the year under review amounted to Rs.44,432,300 and it represented 2 per cent of the expected income. Accordingly, the Corporation had prepared the Action Plan including targets not achievable.

(b) According to the statistics of the Ministry of Plantations, even though the standard Made Tea yield per annum expected from a hectare in Sri Lanka during the year 2017 was 1,595 kilogrammes, tea yield of the 13 Estates belonging to the Corporation had been in a range from 94 kilogrammes to 786 kilogrammes. Maintaining a seedling tea plantation older than 100 years in 1478 hectares and failure to engage continuously in Vegetative Propagation with high yield by the Corporation had caused the yield of low level.

(c) When the production of tea leaves in 11 Estates out of the 13 Estates owned by the Corporation was increasing as compared with the production of tea leaves in the year 2016, the production of tea leaves in Kallebokka and Rangala Estates had dropped by 2 per cent and 21 per cent respectively.

(d) Out of the land of 5,048.48 hectares in extent from which the income of Corporation was being earned, 1,148 hectares had been provided to the external planters and even though the total Made Tea production produced thereby had increased by 5 per cent as compared with the year 2016, the standard quantity of Made Tea that could be annually produced by the said extent of land had been 1,833,356 kilogrammes, only 6 per cent of that had been produced by the external parties as per the statistics pertaining to the tea industry in the year 2017 shown in the web page of the Ministry of Plantations. As such, the Corporation had failed to obtain the standard quantity of production from the lands given to external parties for tea plantation.

(e) According to the statistics of the year 2017 made available through internet by the Ministry of Plantation, the production cost per one kilogramme of tea in Sri Lanka should have been Rs.467. Nevertheless, the production cost per one kilogramme of tea pertaining to 08 Estates owned by the Corporation ranged between Rs.530 and Rs.923 in the year under review. The expenditure incurred on production by the Corporation annually had not been controlled as per the production of same year and as such, the production cost had been at a high level.

(f) Even though the standard average sales price of a one kilogramme of Made Tea should be Rs.620 as per the statistics of the year 2017 made available through internet by the Ministry of Plantation, the said value of the Corporation ranged between Rs.371-Rs.479. The failure in taking action by the Corporation to improve the quality of tea leaves produced and to develop the tea factories owned by the Corporation had been the reasons therefor.

(g) Even though the total extent of lands belonging to 13 Estates of the Corporation had been 9969.46 hectares, the extent of lands with tea plantations utilized to earn income had been only 5048.48 hectares. As such, the Corporation had not taken action to earn income from lands with 4920.98 hectares in extent owned by the Corporation.

3.2 Management Activities

The following observations are made.

(a) In terms of Sub-section (1) of Section 07 (01) A of the Sri Lanka State Plantation Corporation(Amendment)Act, No.49 of 1979, no property owned by the Corporation shall not be rented out, leased out , sold or disposed in any case without the prior written approval of the Minister. Nevertheless, the prior written approval of the Minister had not been obtained to lease out 19 lands and 03 buildings as per the reports made available to audit.

(b) Action had not been taken even by the end of the year under review to settle outstanding lease rent amounting to Rs.21,474,353 recoverable from 02 Government institutions and a private institution since the years 2003 and 2007 in respect of 04 lands out of the lands leased out for 13 transmission towers by the Corporation and to settle a sum of Rs. 34,677,907 recoverable since the year 2011 in respect of 14 lands given on lease basis except the lands leased out for transmission towers.

(c) A sum of Rs. 42,981,358 out of Rs.73 million provided as capital grants by the Ministry of Public Enterprise Development in the year 2014 to utilize for development nature activities had been spent on the purchase of fertilizer, chemicals and other equipment from the year 2014 up to the year under review instead of spending for the development of tea factories not functioning.

(d) Even though quotations for the purchase of Tea Dryer for Kallebokka Factory had been called in 03 instances since the year 2015 , the relevant Machine had not been purchased even by the end of the year under review. The lowest bid of Rs.13,492,500 submitted for this Machine in January 2016 had increased to Rs.26,704,840 in March 2018. Accordingly, the Corporation had to incur an additional cost due to the increase in prices of the Machine and other systems during a period of two years and also the Corporation had lost the opportunity to get a higher price for the tea produced due to the further delay in the installation of machine.

(e) The bungalow located at Water Land of the Perth Estate and the coconut cultivation of 4.33 acres owned by the Corporation, are being utilized by a private party. Nevertheless, no action had been taken to acquire the said bungalow and land to the Corporation or to lease out the same.

(f) Even though the decision to lease out the Opalgala Estate owned by the Corporation to a private company was changed subsequently, the Corporation had not taken action to settle the advance of Rs.4,480,000 obtained from the relevant private company in the year 2002.

3.3 Operating Activities

Out of the 13 factories owned by the Corporation, 10 factories with a daily production capacity of 98,500 kilogrammes of tea leaves were not functioning at present. At least some of the factories not functioning had not been used for tea production and as such, 4,011,059 kilogrammes of tea leaves or 56 per cent of 7,127,842 kilogrammes obtained in the year 2017, had to be sold to external buyers.

3.4 Staff Administration

The following observations are made.

(a) The approved cadre and actual cadre of the Corporation as at 31 December 2017 had been 89 and 81 respectively. Vacancies existed in 15 posts included in the approved cadre whereas the excess cadre stood at 7. In terms of Paragraph 5.2 of Chapter II of the Establishments Code, as soon as a vacancy occurs in a post, it should be filled immediately. Nevertheless, three officers had been recruited on contract basis for the vacant two posts in the Senior Level and one post on the Tertiary Level.

(b) Four employees had been recruited for the posts not included in the approved cadre and salaries and allowances totalling Rs.1,089,641 had been paid in the year under review.

(c) The posts of Manager(Finance), Administrative Officer and Assistant Administrative Officer existed at the instance of approving the cadre by the Corporation had not been included in the approved cadre and action had not been taken to attach the officers served in those posts at that time, to a suitable post upon their qualifications.

(d) In terms of Guideline 9.3.1 of Public Enterprises Circular No.PED/12 of 02 June 2003, every post should have schemes of recruitment and promotion and the schemes of recruitment should prescribe very clearly and distinctly, the educational and other qualifications required for a particular post. Nevertheless, the Corporation had made 19 promotions without a scheme of recruitment and promotion during the year under review and it could not be determined that whether the relevant officers had fulfilled the qualifications required for the post to which the promotion received.

(e) Except an instance of disallowing the increment in terms of Sub-section 10.2 of Chapter VII of the Establishments Code, the increment should be earned by the due date in terms of Sub-section 10.1. Nevertheless, the Management of the Corporation had granted increments ranging from 02 to 10 in respect of 50 employees without any evaluation during the year under review. Additional expenditure of Rs.429,574 had been incurred for salaries during 05 months of the year under review due to the said decision of the Management.

4. Accountability and Good Governance

4.1 Audit Committee

Even though Audit and Management Committee meetings should be held once in 03 months in terms of Section 7.4.1 of Circular No. PED /12 of 02 June 2003 issued by the Department of Public Enterprises, no meetings had been held for the year under review.

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 Corporation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
(a) Maintenance of Registers	Non-maintenance of source Registers properly.
(b) Budgetary Control	Supervision of achieving the budgeted targets is at a low level and non- use of technical tools relating to the improvement of the performance.
(c) Staff Management	Recruitment of employees in addition to the approved cadre, promotions and service extensions made contrary to the laws and rules and non-segregation of duties among employees properly.
(d) Internal Audit	Failure to implement the Internal Audit Plan as expected.