Janatha Estates Development Board - 2018

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Janatha Estates Development Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018, and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Board. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Disclaimer of Opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concerned, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope (Auditor's responsibility for financial statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board,

- Whether Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with Accounting standards.	Comments of the Management	Recommendation
(a)	Although the investment made by the Board in fixed deposits of Rs. 2,500,000 on 21 September 2012 had increased to Rs. 4,326,092 by 31 December 2018, and also the value of that deposit should be accounted for under non-current assets, in accordance with Section 66 of Sri Lanka Accounting Standard 1, it had been accounted for under current assets.	Accurate reporting will be done and submitted from the year 2019.	Fixed deposits should be accurately accounted for in terms of the Standard.
(b)	Although adequate disclosure in the financial statements regarding pledged assets is required in accordance with Paragraph 7.a,b of Sri Lanka Financial Reporting Standards (SLFRS) 07, the required disclosures regarding the pledge of the fixed deposit of Rs. 2,500,000 opened at the Union Place Branch of the People's Bank during the year under review and the land situated at Vauxhall Street,	Disclosures will be made and presented in accordance with Financial Reporting Standard No. 07 through the financial statement 2019.	Adequate disclosures should be made in the financial statements in terms of the Standard.

	Colombo 02, kept as security for obtaining a fixed bank overdraft facility at the Hyde Park Branch of the Bank of Ceylon had not been made in accordance with the relevant standards in the financial statements.		
(c)	Although the net cash flow from operating activities should be adjusted to the net profit or loss of the institution for the year under review using the indirect method in accordance with Paragraph 20 of Sri Lanka Accounting Standards 07, adjustment had been made for the difference of Rs.608,391,269 in accumulated losses in contrary to that.	It has been agreed.	Cash flow should be prepared in terms of the Standard.
(d)	Although the comparative information presented with the year under review should be corrected and adequate disclosures in this regard should be made in the financial statements after retrospectively adjusting the errors made in previous years in accordance with Paragraphs 42, 43 and 49 of Sri Lanka Accounting Standard No. 08, adequate disclosures had not been made in the financial statements of the year under review regarding such adjustments of Rs. 7,469,668 made by the Board in the assets and liabilities for the year 2017 .	It has been agreed.	Comparative information should be adequately disclosed in the financial statements in terms of the Standard.
(e)	Since the 12,331 hectares of freehold land belonging to the 17 estates of the Board, which were stated in the statement of	The value of the lands has not been accounted for at a fair value.	Land should be assessed and accounted for at fair value in term of the

	financial position as Rs. 935,509 for many years had not been assessed and accounted for at fair value in accordance with Paragraph 37 of Sri Lanka Financial Reporting Standards (SLFRS) 13, it was observed that fixed assets were under-assessed.		standard.
(f)	Even though it had been stated that only assets of a similar nature and use should be grouped and accounted for in terms of Paragraph 37 of Sri Lanka Accounting Standards No. 16, in contrary to that, all items such as machinery, office equipment and vehicles had been shown in the financial statements under one item by the Board.	The presentation will be done in accordance with the Standard in the financial year 2019.	Assets should be classified and accounted for according to their nature in terms of the Standard.
(g)	The depreciation rates for 13 assets in the estates and Head Office had not been disclosed in the financial statements in terms of Paragraph 73 (c) of Sri Lanka Accounting Standards No. 16. As a result, the accuracy of the depreciation calculation of these assets could not be verified.	Actions will be taken to correct the presentation of the relevant depreciation rates of 13 assets in the financial statements through the revised accounts for the year 2019.	Depreciation rates pertaining to assets should be disclosed in the financial statements.
(h)	In calculating the service benefit obligation of the entity, although the assumptions such as actuarial method that is current service costs of the entity, the age of the employees, the life expectancy of the employees, the impact on service turnover, retirement age, discount rate, salary and growth rate, etc. should be applied for calculations in accordance with Paragraph 57	Actions will be taken to use the actuarial method in the future.	Service benefit obligations should be calculated and accounted for in terms of the Standard.

	of Sri Lanka Accounting Standard 19, the Board had not applied the above actuarial method in calculating its benefits.		
(i)	Although Paragraph 54 (e) of Sri Lanka Accounting Standard 41 requires disclosure of the useful life or depreciation rate used in respect of biological assets in the financial statements, and also depreciation adjustments had been made for tea, rubber and other crops in the year under review, the depreciation policy and depreciation rate had not been disclosed in the financial statements. As a result, the accuracy of the depreciation value for the year under review could not be verified.	Actions will be taken to present depreciation rate in accordance with Paragraph 54 (e) of Standard No. 41 of the Financial Statements 2019.	Depreciation rate or useful life of the bearer biological assets should be disclosed in the financial statements in terms of the Standard.
(j)	Although biological assets are measured at fair value after deducting the costs to sell upon initial recognition and at the end of each reporting period in terms of Paragraph 12 of Sri Lanka Accounting Standards 41, the timber plantation had not been assessed so and accounted for by the Board.	Timber plantations have not been assessed and accounted for as biological assets in terms of Sri Lanka Accounting Standard 41. Since the increase in the value of biological assets is strength for the existence of the institution, steps will be taken to assess and account for timber plantations with the approval of the Board of Directors.	The fair value of biological assets should be accounted for in terms of the Standard.

1.5.2 Accounting Policies

	Audit Issues	Comments of the Management	Recommendation
(a)	Although it had been stated in the financial statements that the depreciation policy of the	Accepted. Actions will be taken from the year 2022 to carry out depreciation of	Depreciation should be calculated and accounted for

	Board is to begin depreciation of assets from the date of purchase, the fixed assets purchased by the estates during the year 2018 had been depreciated throughout the year under review without considering the date of purchase and the purchase date had not been mentioned in the Register of Fixed Assets. As a result, there was no possibility to calculate the accurate amount of depreciation in the estates for the year under review.	fixed assets purchased during the year on a straight-line basis.	according to the depreciation policy of the Board.
(b)	It was observed that two depreciation rates instead of one depreciation rate for old and new assets are being used for assets such as machinery and computers and computer printers for the Estates and Head Office under the depreciation policy of the Board. Accordingly, the Board had not adopted a specific depreciation policy.	Accepted. Actions will be taken to adopt a single depreciation policy from the year 2022.	Actions should be taken to depreciate assets according to specific and accurate depreciation policies.
(c)	Although the time period of transferring of capital expenditure incurred on tea and rubber from immature to mature cultivation had been specified in accordance with accounting policy No. 3.2.7 stated in the financial statements of the Board, the maturity period of other bearer biological assets in the estates of the Board, namely cocoa, mango, cinnamon, ginger, nutmeg, areca nut, cardamom, and pepper crops had not been disclosed through the accounting policy of the Board.	Actions will be taken to disclose the relevant periods in the accounts regarding other bearer biological assets from the year 2022 according to accepted accounting standards.	Preparation and disclosure of accurate accounting policies and accounting should be done accordingly.

1.5.3 **Accounting Deficiencies**

	Audit Issues	Comments of the Management	Recommendation
(a)	Due to the tea stocks valued at Rs. 2,177,332 returned to the Board from Sathosa were included in the packaging material stock, without including in the closing finished goods, the closing stock of finished goods in the year under review had been understated and the packaging material stock had been overstated.	Actions will be taken to enter that amount in the closing finished goods stock when the revision of accounts in the year 2019.	Stocks should be accurately identified and accounted for.
(b)	Four items such as Small Fish Project, Water Bottle Project, Special Project and Various Projects valued at Rs.1, 761,785 that had not related to work-in-progress had been included in it when classifying assets in financial statements.	Actions will be taken to write off upon approval of the Board of Directors in the Revision of the Accounts in the year 2022 on the recommendation of the committee appointed to take necessary steps to write off if the projects have failed.	Assets should be accurately classified and accounted for.
(c)	A mature plantation valued at Rs.17,925,652 should be accounted for under biological assets had been shown in the financial statements under property, plant and equipment.	This will be corrected when the revision of the Accounts in the year 2019.	Assets should be accurately classified and accounted for.
(d)	Rubber cultivation which was mistakenly transferred from immature cultivation to mature cultivation in the years 2002, 2003 and 2012 prior to the year under review valued at Rs.2,305,369,had been transferred back to immature cultivation in the year under review. It is further observed that this plantation is currently either destroyed or physically non-existent for some other reason.	Since the rubber plantation valued at Rs. 2,305,369 which was transferred to immature plantation does not physically exist at present, actions will be taken by referring the relevant details to the Board of Directors to be written off during the accounting year 2022.	Actions should be taken without delay to identify the reasons for the physical non-existence of assets included in the financial statements and to remove them from the accounts.

(e)	Although there is a cardamom plantation valued at Rs. 1,936,455 cultivated in the Kandal Oya Estate in 1996 and 1998 as per financial statements, it was observed on physical examination that this plantation is not physically available at present. It was further observed that the land where that cultivation had taken place remains uncultivated land at present.	Activities related to cardamom cultivation will be carried out and actions will be taken to be written off during the revision of accounts in the year 2022.	Identifying the parties responsible for the failure of this project, recovering losses and identifying and removing assets not existing physically from accounts should be expedited.
(f)	Actions had not been taken to remove the value of trees with commercial value that are sold each year, from biological assets in the financial statements and even though trees valued at Rs. 7,399,067 had been cut down and removed during the year under review, actions had not been taken to remove from the accounts.	The value of all commercially valuable trees owned by the institution has not been accounted for as biological assets in the financial accounts at present. Actions will be taken to make necessary adjustments through the accounts of the year 2022.	Actions should be taken to accurately account for the biological assets owned by the Board and to remove the cost of trees sold from those assets.
(g)	The balances of 5 estates valued at Rs. 3,197,505 remaining under work- in- progress under non-current assets since 1996 had been debited to an adjustment account and had been shown under leased assets and work in progress in the statement of financial position in the year under review. Steps had not been taken to check these balances and to capitalize, complete, or write off.	Actions will be taken to be written off upon approval of the Board of Directors during the revision of accounts in the year 2022.	Immediate actions should be taken to examine the balances of work-in- progress on the estates and to follow formal procedures to complete or capitalize such work and write it off from the accounts.
(h)	Although Rs. 5,189,961 had been identified as the expenditure incurred for the acquisition of property, plant and equipment in the year under review according to the financial statements of the Board, no expenditure had been adjusted for the acquisition of	Agree.	The value of non-current assets acquired by paying for them in cash should be adjusted to the cash flow under investment activities.

	property, plant and equipment under investment activities in the cash flows statement.		
(i)	Although the additions to biological assets were Rs. 32,062,532 and the disposals of intangible assets were Rs. 2,330,368, in the year under review as per the financial statements of the Board, these cash inflows and outflows had not been shown in the cash flow statement.	Agree.	Cash inflows and outflows should be accurately shown in the cash flow statement.
(j)	Due to the interest adjustments made to the Chilaw Plantation Company and the State Management Board (SRMC) during the year under review amounted to Rs. 3,579,800 was identified as borrowings (cash inflows) by the board under financial activities, net cash flow from financial activities had increased by Rs.3,579,800 .	Agree.	Financial activities should be accurately adjusted in the cash flow statement.
(k)	Due to the immature rubber plantations valued at Rs. 4,841,741 which were physically unavailable and removed from the books during the year under review, was added to loss in the statement of cash flows, the net cash flow generated from operations had increased by that amount.	Agree.	Operational activities should be accurately adjusted in the cash flow statement.
(l)	Although only the officer who prepares the journal vouchers of the Board had signed, the Journal Voucher Checking Officer and the Approving Officer had not signed.	Actions will be taken to approve the relevant journal vouchers.	Officers, who prepare, check and approve journal vouchers should sign there.
(m)	Even though it had revealed that it would take 4 years to mature the	Necessary measures have been taken to start	Mature crops should be accounted for

	immature tea plantations, the tea cultivation valued at Rs. 29,011,699, cultivated for 5 to 11 years from the year 2007 to 2013 had been transferred to mature tea cultivation in the year under review.	depreciation of biological assets according to the audit query received in the year 2017 in terms of Accounting Standards.	accurately in accordance with the policies disclosed in the financial statements.
(n)	Information on lands and buildings transferred to regional estate companies by the Janatha Estates Development Board in the year 1992 had not been furnished to audit and it had not been included in the financial statements either.	Information on lands and buildings transferred to regional estate companies by the Janatha Estates Development Board in the year 1992 is not available in the Finance Division. Therefore, these assets are not recorded or disclosed under property, plant and equipment in the financial statements.	Details of lands and buildings transferred to Regional Estate Companies should be included in the financial statements of the Board.
(o)	Although the Board had earned a land rental income of Rs. 37,796,794 and a building rental income of Rs. 36,553,920 by 31 December 2018, the value of these leased lands and buildings had not been disclosed under investment property in the financial statements.	Accepted.	Investment properties should be accurately identified and accounted for in the financial statements.
(p)	Conducting a census of the bearer biological assets of the Board such as tea, coconut and rubber, which had a net value of Rs. 458,732,760 at the end of the year under review, their existence has not been confirmed.	Reports on bearer biological assets are not currently prepared by the Janatha Estates Development Board and actions will be taken to obtain a census report regarding that from all estates. Further, actions have been taken to obtain the report for the financial year 2022.	A census of biological assets should be conducted in every year and its existence should be confirmed.
(q)	Due to the failure of the Board for properly paying the amount payable to the Employees' Provident Fund (EPF) although a	A fine should also be paid to the Employees' Provident Fund for the inability of paying statutory liabilities	Actions should be taken to settle statutory liabilities on due date and to

	fine of Rs. 340,623,374 had to be paid to the Employees Provident Fund as at the last day of the year under review, no provision whatsoever had been made in the financial statements regarding this liability.	on the due date due to the financial crisis the institution has been facing since 2001 and if those liabilities had been properly remitted, that uneconomic expense could have been avoided.	prevent surcharges.
(r)	There was an amount of Rs. 866,884 charged from external parties in trade and other payables for various reasons by the estates that was not recognized as income for the year in the final accounts.	Actions will be taken to accurately indicate the unrecognized income of Rs. 866,884 in the accounts of the year 2019 as income for the financial year.	The income for the year should be identified accurately.
(s)	Even though it had been stated in the financial statements of the Kandal Oya and Nagastenna Estates indicate that a case has been filed in the Magistrate's Court regarding the loss of Rs. 2,787,206 on 9 September 2011, no disclosures or provisions whatsoever had not been made regarding that and the money could not be recovered.	The superintendents of those estates have been informed to forward the necessary information to the Head Office to write off the full amount of this loss in the accounts by following the progress of the action taken regarding the loss of money and the case filed in the Magistrate's Court.	Necessary provisions and disclosures should be made in the financial statements in respect of financial losses.
(t)	Even though the Plantation Development Project implemented by the Plantation Management Monitoring Division (PMMD) of the Ministry of Plantation Industries had been completed in the year 2010, a sum of Rs. 4,136,733 in relation to that project as at 31 December 2018 had been shown in the financial statements of the Board as a debtor balance which was not reimbursed by that Ministry.	This project was completed around 2010. The amount not reimbursed at that time to the Janatha Estates Development Board was Rs. 4,136,733. Since this project and the institution are not currently operational, the necessary accounting revisions will be made in the year 2020 and actions will be taken to write off.	Actions should be taken without delay against the responsible parties regarding the outstanding debt balances from non-implemented long-term projects and necessary steps should be taken to adjust these balances with the appropriate approvals.
(u)	Even though the net asset value of the Monte Christo Estate which was transferred to the private	After transferring this estate to the private sector on a lease basis around 2001, a	Specific explanations on the balances receivable should be

	sector on a lease basis in 2001 amounting to Rs. 40,503,226, was shown in the financial statements as debtors for 17 years, there was no specific explanation for this balance and although it was observed that this was not recoverable a provision for bad debts had not been made in the financial statements.	net asset value of Rs.40,503,226 for that estate is shown in the accounts books of the Head Office after this estate was transferred to the private sector on a lease basis around 2001. This balance has been continuously shown in the account books of the institution from 2001 to 2018.	submitted for audit and balances should be confirmed through balance confirmations. Similarly, necessary adjustments should also be made in the financial statements regarding these balances.
(v)	Although the building lease rent of the year under review was Rs. 36,553,920, thus it was Rs.18,496,844 as per the Nations Building Tax Returns, Nations Building Tax had been under-assessed by Rs.361,141 (18,057,076*2%) in contrary to the Section 3 (2) (iii) of the said Act.	Even though it has been accounted for as the rent receivables income, due to errors and deficiencies in land and building lease rent agreements, since the lease money is not received on time and in the due amount, the records have been prepared on cash basis. The reason is that the organization does not have sufficient working capital to pay taxes on unearned income.	The lease rent should be calculated according to the provisions of the Nations Building Tax Act.

1.5.4 Unreconciled Control Accounts or Records

	Item	As per financial statements Rs.	As per Correspondin g Records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a)	Balance of the Gratuity Provision Account	504,888,251	504,793,974	94,277	The differences shown in the three estates after accurate calculations obtained by handing over to an auditing firm with the approval of the Board of Directors to obtain an accurate report	Correspondence records should be maintained by entering the accurate value.

					regarding the calculation of gratuity allowances have been corrected in the year 2019.	
(b)	Gratuity Account Balance	463,392,621	467,753,167	4,360,546	The differences shown have been corrected in the year 2019.	Correspondence records should be maintained by entering the accurate value.
(c)	Balance of the gratuity surcharge provision account	143,202,687	144,920,316	1,717,629	It has been observed as per the audit query that there is a difference in the balances of the gratuity surcharge provision account of the Board for the year 2018 compared to the financial statements of these estates, namely Hanthana, Levalan, Rookwood, Lulkandura, Nagastenna and Kandal Oya.	Correspondence records should be maintained by entering the accurate value.
(d)	Value of tea returned to the Board from Sathosa	3,482,941	3,450	3,479,491	The tea stocks returned to JEDB have not been received according to the reconciliation reports issued by Sathosa when making payments to JEDB. Therefore, the balance has been understated as per	Correspondence records should be maintained by entering the accurate value.

					the tea stock records in the warehouse as at 23 February 2011.	
(e)	Loan and interest balance receivable from Sri Lanka State Plantations Corporation	119,346,347	97,709,342	21,637,005	Actions will be taken to correct these balances by making Discussions with this Plantation Corporation in the year 2020.	Correspondence records should be maintained by entering the accurate value.
(f)	Lease contingent interest value of Head Office	585,032	532,168	52,864	Actions will be taken to correct in the revision of accounts in the year 2019.	Correspondence records should be maintained by entering the accurate value.
(g)	Lease Liability	852,991	1,064,000	211,009	Actions will be taken to correct in the revision of accounts in the year 2019.	Correspondence records should be maintained by entering the accurate value.
(h)	Trade receivable balance in the Jana Tea Division	28,995,786	29,390,337	394,551	Trade receivable balance in the Jana Tea Division will be corrected in the revision of accounts in the year 2019.	Correspondence records should be maintained by entering the accurate value.
(i)	Nation Building Taxes payable	8,369,467	1,182,458	7,187,009	This difference has happened due to the fact that economic service charges are made on an accrual basis and income tax is paid on cash basis.	Correspondence records should be maintained by entering the accurate value.

1.5.5 Documentary Evidences not made available for Audit.

	Item available	Amount Rs.	Evidence not	Comments of the Management	Recommendation
(a)	Gratuity payments of Estates	616,860,963	Gratuity Payment Schedule	The answers to this query have been provided under Response to Audit query No. JEDB/2022/Information/14 as per the letter dated 08.04.2021.	The gratuity payment schedule should be submitted to the audit.
(b)	Closing stock valuation and balance confirmation	109,527,017	Physical stock verification reports and balance confirmation	When valuing the inventory as at the balance sheet date, a valuation based on cost has been made. The inventory verification documents related to the consumer sector have been submitted to the Audit Division on 26 March 2022 to confirm that valuation.	Detailed stock verification reports related to the final stock should be submitted for audit and the value of the closing stock should be accurately shown in the financial statements.
(c)	Returned Tea	2,177,332	Physical stock verification records	This ledger account balance has arisen due to the accounting of returned stocks in a separate account for the preparation of accounting entries. It has not been possible to submit physical stock verification reports for this purpose.	The returned stock held as at the balance sheet date, should be physically verified and submitted the reports for audit.
(d)	Creditor Balance	440,754,273	Balance confirmation letters and	Balance confirmation letters have not been	Creditor balance confirmation

			information on subsequent settlements	received from CIC Agro Company for the relevant year and Corporations, Boards, and Companies that were under the State Ministry have now been closed. Although the requests have been made, to provide balance confirmations from institutions such as the Sri Lanka Tea Board, Lanka Mineral Sands, Lanka Ceramics Industries Corporation, People's Bank, and Pan Asia Bank, the balance confirmations have not been provided up to now.	letters should be submitted for audit and steps should be taken to accurately account for the credit balances.
(e)	Fixed assets of the inactive Onugaloya Estate	6,013,927	Fixed Asset Schedules	Actions will be taken to remove these balances from the books in the year 2022 with the permission of the governing authority.	The assets owned by the Board should be included in the Register of Fixed Assets and actions should be taken to remove the physically unavailable asset balances From books after a formal inspection.
(f)	Purchases of Fixed Asset	5,189,962	Vouchers and bills related to	A Register of Fixed Assets has been	The required primary

			the purchase of fixed assets	submitted for audit to confirm the purchases of fixed assets during the year.	document to verify the fixed assets purchased should be submitted for audit.
(g)	Additions during the year related to bearer and consumable biological assets	30,095,968	Payment vouchers, journal vouchers, bills	The documents required to verify the bearer and consumable biological assets which were added during the year under review have been submitted for audit.	Vouchers, journals and bills required to verify bearer and consumable biological assets should be submitted to audit.
(h)	Lease Agreements	38,553,244	Lease agreements containing details about the properties	When the Montecristo Estate was leased out to the private sector around 2003, the assets in the accounting books were transferred to the Head Office and the liabilities had been transferred to that Board. Subsequently, this estate was transferred to a Board known as the Nawalapitiya Plantation Private Board around June 2017 and the assets and properties belonging to that estate remain in the books of the Head Office. Actions will be taken to disclose the assets in this regard through the	Lease agreements should be submitted for audit and actions should be taken to accurately account for leased assets and make the necessary disclosures in the financial statements.

				accounts of 2019.	
(i)	Lease rent creditor balance	4,087,333	Confirmations of creditor balances and age analysis	The value of the balance of the lease rent creditors payable of estates amounting to Rs. 4,087,333 has been shown by 31.12.2018 due to an accounting error; the balance has been corrected in the accounting year 2020.	Actions should be taken to submit balance confirmations for audit.
(j)	Balance payable to private computer software supplier company	852,991	Confirmation on balances payable and age analysis	Balance confirmation letters have not been received for the balance of Rs. 852,991 of lease rent payable to a private company.	Balance confirmation and age analysis regarding the balances payable should be submitted for audit.
(k)	Suspense interest on lease	1,361,403	Confirmation of suspense interest on lease and age analysis.	Since the balance of Rs. 776,371 is a balance carried forward from before 2007, it has been difficult to find information. This wrong accounting has been corrected in the year 2020.	Actions should be taken to obtain information related to opening balances and to correct wrong accounting entries.
(l)	Financial lease value	136,160	Financial lease agreement	This lease value reflects a balance to be paid to a private finance company. I will check the accuracy of this and correct it in the revision of accounts in 2022.	It should check the accuracy of these lease balances payable and necessary corrections should be

					made promptly.
(m)	Lease rent advance	50,353,716	Balance confirmation and age analysis	I hereby submit the balance confirmation reports sent by 2 institutions as at 31.12.2018. Balance confirmation letters have not been received from the other institutions.	Evidences required verifying lease advance balance should be submitted for audit.
(n)	Unidentified deposit value	6,461,737	Deposit balance confirmations	Receipts which have been deposited directly into banks that are not immediately identifiable will be accounted for to these ledger accounts and once the relevant receipts are identified, they will be credited to the accurate accounts.	Direct deposits should be accurately identified and accounted for.
(o)	Deposits / Advances for rental properties	93,024,351	Balance confirmations and age analysis	A problematic situation has arisen regarding the accuracy of the ledger balances for lease properties.	Evidences required to verify the accuracy of lease property ledger balances should be submitted to audit.
(p)	Loans provided by the Mahaweli Ministry for the Kotmale Reservoir Project	40,548,258	Written confirmations for loans	Agree with the observation.	Written evidence for debt balance should be submitted to audit.

(q)	Miscellaneous, Jana Tea, Trade and Head Office Debtors balances, control accounts balances maintained by the Estates and Jana Tea Section with Head Office	671,352,252	Balance confirmations and age analysis	A proper plan has not been available for the recovery of these debtors. The old debtor balances of the Jana Tea Section have been remaining since 2004. Necessary follow-up actions will be taken.	Debtor balance confirmations and age analysis should be submitted for audit and a formal system should be implemented to recover debts.
(r)	Withholding Tax	9,670,772	Relevant withholding tax certificates	Several withholding tax certificates currently available in the Finance Division has been submitted herewith.	Withholding tax certificates related to the value stated in the account should be submitted to audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue.	Comments of the Management	Recommendation
(a)	There is a debtor balance of Rs. 33,196,752 as at 31 December 2018 due to the sale of green leaf to external parties. Although a credit period of about 14 days is provided when selling green leaf and also the said debtor balance of Rs. 28,183,139 had remained the year 2003 to the year 2016, the Board had failed to recover this old balance.	Accept. Due to the sale of green leaf to various institutions on credit, funds receivables are available here as at the end of December 2018 and they have not been able to be recovered due to litigation and other reasons and actions will be taken to recover the amount in the future.	Actions should be taken without delay to recover old balances.
(b)	Although there are 33 old debt balances of Rs. 4,008,885 relating to the years 1999 to 2016 in the estates, actions had not been taken to recover those balances or to make provisions for bad debts in the financial	Out of the balances reflected in these accounts, many expenses were in capital nature. Actions will be taken to verify the accuracy of those expenses and to	Actions should be taken to recover outstanding balances and make relevant provisions for old debtors.

	statements.	capitalize in the financial year 2020 or to be written off as approved by the Board of Directors.	
(c)	The total outstanding balance of the Jana Tea Division was Rs. 29,390,337 and the outstanding balance of debtors over 90 days was Rs. 21,748,690 as per the age analysis of debtors. Out of that balance, the total outstanding debts for the year is Rs. 11,625,553 and although those balances are many years old, recovery of these balances or provision for bad debts had also not been done.	Since the actions have been taken with the expectation to recover these debtors, bad debt provisions have not been made for bad debts. Written evidence has been submitted in respect of the steps taken to recover.	Actions should be taken to recover debtor balances and make relevant provisions for old debtors.
(d)	Out of the balances as at 31 December 2018, only Rs. 8,856,575 had been settled by the debtors as at 15 March 2022 out of the selected debtor balances of Rs. 288,839,894 and those settlements were made in the year 2019. Accordingly, it was observed that out of the above balances, a sum of Rs. 279,983,319 had remained irrecoverable.	Out of the debtor balances remained as at 31 December 2018, the lease and office rent receivables related to the land sector are shown by these balances. The relevant revisions have been made and submitted during the 2021 and 2022 accounting years.	A formal programme should be prepared to collect money from debtors and actions should be taken to make necessary adjustments regarding irrecoverable balances remain in accounts.
(e)	Due to the inclusion of an adjustment in the financial statements of the debtor balances of Rs.11,190,988 which were identified as irrecoverable in the years prior to the year under review, it was observed that the current assets have been overstated by the above value.	This account shows the net value of the irrecoverable uncollectible debts in estates that were written off and creditor balances. Actions will be taken to make necessary verifications and to be written off in 2022, subject to approval of the Board of Directors.	Actions should be taken to write off debtors only upon formal and quantitative confirmation and through necessary approvals.

1.6.2 Payables

	Audit Issue.	Comments of the Management	Recommendation
(a)	Due to the failure to properly settle the transactions between the estates in trade and other payables by the last day of the year under review 07 unsettled credit balances amounting to Rs. 36,833,017 are observed and the Board had not taken actions to get settled the relevant values even by the preparation of final accounts of the year 2018 .	Accepted. Actions will be taken to write off or to find and settle information with the approval of the Board of Directors.	Actions should be taken to promptly settle the balances remained among estates.
(b)	According to the creditor age analysis, the outstanding balance from 1 to 5 years was Rs.15,663,093 and the outstanding balance for more than 5 years was Rs. 103,092,804 and actions had not been taken to settle those balances or remove them from the books.	Due to the financial difficulties of the institution, it has been impossible to settle these creditors. However, the necessary payments will be made when the financial situation improves.	An urgent programme should be implemented without delay to settle the loan balance.
(c)	There is a festival advance balance valued at Rs. 32,545,313 in 18 estates of the Board and out these old balances remaining from the year 2000, the information on composition of the festival advances of Rs.252,185 had not been available in the Board.	The estates say that due to the death of employees, dismissals, left the service, etc. during this period, it is not possible to recover. However, the estates are in the process of recovering the arrears when employees who have left the estates come to the estates to obtain information regarding the withdrawal of provident funds and gratuity funds. The names of the relevant officers and the arrears of the outstanding festival advances of Rs. 252,185 cannot be found. The estates have already been	It should find out the details and necessary information should be submitted to audit.

		instructed to find out and submit the names of the relevant officers and the amount of arrears.	

1.7 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Sub-section 5 (1) of Part II of the Gratuities Payment Act, No. 12 of 1983	Although the gratuity payments should be made within 30 days of the date of retirement or death of an employee, the Janatha Estates Development Board had not done so. Further, any employer who defaults to pay any amount to be received as gratuity should pay surcharges calculated according to the sections of the Act. Accordingly, due to the failure of the Board for paying the gratuity on the due date, an amount of Rs. 143,202,687 had to be paid as surcharge by the end of 2018.	Due to the non-payment of gratuities because of the prolonged financial crisis, calculated surcharge and the gratuity has been paid when making payments on court judgments.	Actions should be taken to make gratuity payments on time in accordance with the Gratuity Payment Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka **(i)** F.R. 387	The paying officer should always check whether his bank balance is sufficient for all payments made by cheques and although it has been informed that it is prohibited to withdraw money from any government bank account, due to the fact that the Janatha Estate Development Board had held a total of Rs. 60,977,905 as bank overdrafts in 4 accounts maintain at the Bank of	Agree with the observation.	Actions should not be taken to make payments on overdraft facilities in accordance with Financial Regulations.

		Ceylon, Nation Trust Bank and People's Bank by the end of 2018, it was observed that an overdraft interest of Rs. 8,348,209 had been paid.		
	(ii) F.R. 395 (c)	Although bank reconciliations should be prepared before the 15th of the following month for transactions at the end of each month, bank reconciliations had not been prepared for 10 bank accounts.	Bank reconciliation reports will be prepared at present and submitted for audit.	Actions should be taken to prepare bank reconciliation statements within the relevant time frame in terms of Financial Regulations.
(c)	The Nations Building Tax Act, No. 09 of 2009 (i) Section XIV of Schedule I	Although the tea supplied to a registered broker for sale at the Colombo Tea Auction is exempt from tax under this Act, other tea sales are subject to income tax. Accordingly, the revenue of the Board from the sale of tea to consumers is subject to tax at Rs. 156,645,783 excluding tea auctions. Accordingly, the tax had been under-assessed by Rs. 3,132,915.	Due to the financial difficulties of the institution, taxes payable on other tea sales income Nations Building Taxes were not paid in the year 2018.	Actions should be taken to calculate and pay taxes on sales income in accordance with the provisions of the Nations Building Tax Act.
	(ii) Section 2 (i) (c)	Even though income received under other income heads is subject to tax, the Board had not taken steps to pay the Nations Building Tax for the land lease income of Rs. 37,796,794 and other income of Rs. 2,368,987 in the year 2018. Due to this, the Nations Building Tax had been calculated by underestimating Rs. 803,315 (40,165,781 * 2%) .	Nations Building Taxes for Land and Leases for the Year 2018 have not been paid.	Actions should be taken to calculate and pay taxes on income in accordance with the provisions of the Nations Building Tax Act No. 09 of 2009.

	(iii) Sub-section 4	Since the Board had not calculated the Nations Building Tax on the due date and paid it to the Inland Revenue Department, there was an arrears of taxes amounted to Rs. 1,182,458 as at 31 December 2018.	Due to the financial difficulties of the institution Nations Building Tax, has not been paid during the year 2018.	Actions should be taken to calculate and pay tax on income in accordance with the provisions of the Nations Building Tax Act No. 09 of 2009.
(d)	Economic Service Charge Act No. 13 of 2006 (i) Section 2	Although every institution with a quarterly revenue exceeding Rs. 10 million should be subjected to tax, the Board had not acted accordingly and the total turnover during the financial year under consideration was Rs. 818,735,838 and although Rs. 2,046,839 (818,735,838*0.25%) should be paid as Economic Service Charge for this, it had not been so done. In addition, another Rs. 6,357,269 had been continuously shown on the balance sheet as economic service charges payable.	Payments were suspended from 2012 based on the decision of the governing authority.	Actions should be taken in accordance with the provisions of the Economic Service Charge Act No. 13 of 2006.
	(ii) Sub-section 6	Although the economic service charges should be paid on or before the 20th day of the month following the end of the quarter by every entity whose taxable turnover exceeds, the Board had not submitted any reports or paid any fees from the year 2012 to the financial year 2019. Further, when any service fee or part thereof relating to a quarter has not been paid on or before the date specified in Section 6 of	Payments were suspended from 2012 based on the decision of the governing authority.	Actions should be taken in accordance with the provisions of the Economic Service Charge Act No. 13 of 2006.

		the Act in accordance with Section 10 of the Act, it is considered as defaulted and every director or other chief officer of the Board may be deemed to be a defaulter for the purposes of the Act.		
(e)	Inland Revenue Act No. 24 of 2017 (i) Section 90	An individual or partnership must pay income tax to the Inland Revenue Department on a self-assessment basis at the end of a quarter on or before 15 August, 15 November, 15 February and 15 May of the following year, respectively. If there is any remaining tax it should be paid on or before 30 September of the following year. Nevertheless, the Board had not paid the income tax for the assessment year 2018 even by 22 June 2021 and the income tax liability had also not been calculated.	Agree with the observation.	Actions should be taken to calculate and pay income tax liability in accordance with the Inland Revenue Act.
	(ii) Section 93	Although an income statement for each assessment year should be submitted to the Inland Revenue Department within a period of not less than 8 months after the end of that assessment year, the Board had not submitted the income tax return for the assessment year 2018/2019 to the Inland Revenue Department up to 22 June 2021.	Actions will be taken to hand over the tax returns.	Income tax returns should be submitted on due time in accordance with the Inland Revenue Act.

(f)	Section 15 of the Employees' Provident Fund Act, No. 15 of 1958	The employer of an employee shall deduct the monthly contribution of such employee under this Act from the earnings of that employee and pay it to the Fund before the last day of the following month. Nevertheless, a sum of Rs. 342,193,295 unpaid for almost 17 years by the Board since 2001 had remained as a Provident Fund payable.	Due to the financial difficulties that existed since 2001, the payment of Employees' Trust Funds on the due date was suspended. Contributions have been paid when money is received from the Treasury and as prescribed by judgement of courts.	An urgent programme should be implemented to pay unpaid Provident Fund Contributions in accordance with the Employees Provident Fund Act.
(g)	Sub-section 16 (1) of the Employees' Trust Fund Act, No. 46 of 1980	Although the employer is liable to pay a contribution of about three percent of the total earnings earned by that employee while employed by that employer during that month, for each month in which the employer employs the employee, in respect of that employee on or before the last day of the following month, an amount of Rs.29,691,739 to be paid by the Board to the Employees' Trust Fund for nearly 7 years from the year 2011 had not been paid even by the end of the year under review.	Agree with the observation.	Actions should be taken to pay contributions in accordance with the Employees' Trust Fund Act at the prescribed period of time.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a loss of Rs. 477,742,649 and the corresponding loss in the preceding year amounted to Rs. 381,022,523. Accordingly, a deterioration amounted to Rs. 96,720,126 in the financial result was observed. The decrease of sales revenue of consumer tea by Rs. 178,475,834, the decrease of sales revenue of rubber by Rs. 40,949,262, and the increase of cost of sales related to green leaf and tea stocks by Rs. 66,971,610 as compared to the previous year of the Board were the main reasons for this decline.

2.2 Trend Analysis of Major Income and Expenditure Items

The income from the sale of green leaf in the year under review had decreased by Rs. 35,168,636 or 6.7 per cent compared to the year 2017 and revenues from tea, rubber and other crops had decreased by Rs. 178,475,834, Rs. 40,949,262 and Rs. 25,463,756, equivalent to 53 per cent, 20 per cent and 55 per cent respectively when compared to the year 2017 and the cost of tea leaf, Jana Tea, rubber and other crops had increased by Rs. 66,971,610, Rs. 73,743,967, Rs. 154,879,673 and Rs. 1,712,488 respectively in the year 2018 as compared to 2017 . The cost increases were observed as percentages of 6 percent, 51 percent, 78 percent, and 83 percent, respectively.

2.3 Ratio Analysis

The current asset ratio and quick asset ratio were 1:0.3 in the year 2017 and 2018 and it was observed that the Board was unable to settle its current liabilities from its current assets and that the Board's going concern was at risk. Similarly, when analysis of the above ratios furthermore, the gross loss ratio of the Board from 21 per cent to 43 per cent and the net loss ratio from 35 per cent to 58 per cent had further deteriorated.

3. Accountability and Good Governance

3.1 Presentation of Financial Statements

Audit Issue	Comments of the Management	Recommendation
The Accounting and Finance Manager, a consultant, two accountants and 11 officers are working attached to the Accounts Division of the Board and although salaries and allowances of Rs. 10.11 million had been paid during the year under review for that purpose, the financial statements for the years 2017 and 2018 had not been submitted to the Auditor General even by 31 October 2019, as per Public Enterprise Circular No. 12 dated 02 June 2003.	It has been agreed with the observation.	Financial Statements should be submitted to the audit as at due date.

3.2 Audit Committee

Audit Issue	Comments of the Management	Recommendation
Although the Audit and Management Committee meetings should be held once every 3 months in accordance with Section 7.4.1 of the Department	Accept. It is informed that it was unable to hold Audit Committees due to changes in the Board of	Actions should be taken to hold Audit and Management Committee Meetings

of Public Enterprises Circular No. 12 dated 02 June 2003, only 2 meetings were held for the year under review.	Directors due to the political instability in the country in the last quarter of 2018. Furthermore, 4 Committee Meetings have been held in 2017 and 3 Committee Meetings have been held so far in 2019.	as required and to achieve objectives of internal control and good governance through this.