

Janatha Estate Development Board - 2018

The audit of the operational activities of the Janatha Estate Development Board for the year ended 31 December 2018 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 Section 12 of National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971. The financial statements for the year 2018 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 comments and observations which I consider should be report to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka on the operation of the Board in the year under review appear in this report.

1.2 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.

2. Financial Statements

2.1 Presentation of Financial Statements

Although the Financial Statements and Draft Annual Report should be submitted to the Auditor General within 60 days after close of the Accounting Year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED / 12 of 02 June 2003, the Ledger Accounts, Financial Statements and Draft Annual Reports for the years 2017 and 2018 had not been presented for audit even by 30 September 2019.

2.2 Maintenance of Accounts Books and Documents

Although the activities of the Board had been continuing, the Ledger Account, Books and Records for the year under review had not been completed.

2.3 Existence of Assets and Liabilities

The details in respect of assets, liabilities, income and expenditure shown in the last financial statements prepared by the Board as at 31 December 2016 are given below.

Assets -----	Value ----- Rs.
Assets -----	
Non- current Assets	2,231,172,049
Current Assets	<u>686,456,256</u>
Total Assets	<u>2,917,628,305</u>
Liabilities -----	
Current Liabilities	2,532,160,239
Non- current Liabilities	<u>725,608,431</u>
Total Liabilities	3,257,768,670
Net Assets/ Equity	<u>(340,140,366)</u>
Total Liabilities	<u>2,917,628,305</u>
Total Revenue	571,650,747
Total Expenditure	<u>(1,135,549,881)</u>
Deficit	<u>(563,899,134)</u>

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

The following observations are made.

References to Laws, Rules, Regulations, etc. -----	Non-compliance -----	Comments of the Management -----	Recommendation -----
(a) Paragraph 8.2.1 of Chapter II of the the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Although appointment letters should be provided by the Appointing Authority in terms of the provisions of the Establishments Code, the General Manager and the Executive Director had recruited 27 officers on a permanent and	Since there was no full-time Chairman employed during the foresaid period, it has been implemented under several internal divisions such as administration, lands and plantations with the objective of continuing the	Appointments should be made by the Appointing Authority.

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| | | contract basis by issuing appointment letters to those officers. | activities of the Institution and the General Manager and the Executive Director have taken actions to issue such appointment letters on service requirements on the approval of the Board of Directors. |
| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka 371 (II) C | Although when an advance obtained, actions should be taken to settle as soon as the task is completed, the advances amounted to Rs. 1,486,350 received by 24 officers on 62 occasions had been delayed from two months to twelve months in the year under review. | Accepted. An internal circular has been issued on 09 August 2018 to act in compliance with the Financial Regulations and actions are being taken accordingly. Advances should be settled as soon as the task is completed. |
| (c) | Paragraph 3.4 of the Presidential Secretariat Circular No. SP /RD/02/10 of 03 February 2010 | Besides where there is a time limit prescribed by law whilst leasing lands owned by state enterprises although it should be limited to 30 years in other cases in accordance with the laws on state-owned land management, 03 tea factories had been leased for a period of 50 years. | The Gurukoya and Harangala factories have been leased on a decision of the then management in the years 2012 and 2013. Actions should be taken to comply with the Rules and Regulations enacted with regard to the State-owned Land Management. |

(d)	Public Enterprises Circular No. 01/ 2015 of 25 May 2015	A sum of Rs. 5,444,168 had been paid to 09 officers who were not entitled to fuel and transport allowances during the year under review.	The Board of Directors has approved the payment of transport allowances for the nine officers in terms of the provisions of the Act established by the Board. The letter of appointment of these officers also states that this privilege can be exercised. Since the General Manager has to be away for duty purposes, the approval of the Board of Directors has also been obtained to grant fuel allowances considering these distances.	The Board should control the expenditure under the continuous loss situation and act in accordance with the government circulars.
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3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) Although a lease has to be made at the public competition after determining a lessee through a Tender Board of the Ministry of as per Financial Regulation 686 (c) obtaining a prior estimate in respect of the amount of stones that can be broken down of large	There was no estimate from the Geological Survey and Mines Bureau (GSMB) on the amount of quarried stone and the then administration had provided based on a personal valuation report. It is accepted	Arrangements should be made on preparation of estimates as prescribed and taking actions to collect the money as prescribed.

rock located in 6 acre 2 roods at Kolapathana Estate for a period of 20 years from 28 February 2017, it had been leased at once for a sum of Rs. 20.24 million for the value of the land without doing so.

that the contract has been awarded without carrying out tender procedure.

(b) Although the rock mentioned in (a) above have been breaking without permission by various persons before 20 years up to now, actions had not been taken to recover the damages by taking legal actions for that.

There is no estimate from the Geological Survey and Mines Bureau (GSMB) on the amount of quarried stone and the then administration had provided based on a personal valuation report. It is accepted that the contract has been awarded without carrying out tender procedure.

Actions should be taken to recover the relevant losses by taking legal actions against the unauthorized persons.

(c) Although, the extent of land acquired by the unauthorized persons was mentioned as 313 acres as per the records maintained by the Board with regard to the lands, though 861 acres of land in extent had been illegally occupied by 893 people for more than 10 years, arrangements had not been made to take legal actions against it or to recover a lease.

Accepted. Removal Notices have been sent to nearly 50 of the unauthorized residents in the Kumarawatte and Hanthana Estates. However, these activities are not being functioned properly due to the increase in financing costs to be incurred in these activities.

Actions should be taken quickly regarding the unauthorized acquisition of lands belonging to the Board.

(d) Although, the price specified by the Commissioner of Tea or a price higher than that should be determined whilst sale of tea leaves according to the contractual conditions, due to specify a lower price than

Cannot be agreed. Green leaves are being handed over to Insight (Pvt.) Ltd. by the Management of the Board in the year 2014. The Board had provided tea leaves

The tea leaves should be sold at the agreed price.

the prices announced by the Commissioner of Tea when entering into agreements with external parties at the instance of selling green leaves at Mahawila Factory , the Board had lost a sum of Rs. 3.75 million of revenue during the year under review.

according to that agreement and there was no such loss to be seen in revenue as compared to the price stated by the Sri Lanka Tea Board and the amount paid by the Company to us.

(e) A total of 0.707 hectares of land in extent located at two places in Mattakkuliya area belonging to the Board was sold to Sri Lanka Institute of Advanced Technological Education in the years 2012, 2013 and 2015 and actions had not been taken to collect Rs. 101.03 million to be recovered from that institution for that. In addition, 5 hectares of land belonging to the Mattakkuliya area itself had been handed over to the Urban Development Authority without determining compensation.

This land has been handed over to the Sri Lanka Institute of Higher Education and the necessary documents have been submitted to the Institute to obtain compensation. There has been no positive response so far. However, discussions are being carried out to recover this.

Lands should be sold only after payment of the fee and the compensation should be recovered before transferring of the land to other parties in order to that .

(f) The annual lease amount should be determined by obtaining a valuation report from the Chief Valuer of the Government as per the Presidential Secretariat Circular No. SAI/ A/4/34 of 21 September 1995, and the lease amount should be calculated to increase the lease amount by 50 per cent in every 05 years. However, the valuation reports had not been obtained for 01 acre and 1.3 perches factory

Cannot be agreed. Because of the conditions were not consisted in the lease agreements that have been signed to increase the 50 per cent lease once in five years and a situation has arisen where the lease amount cannot be amended as per the government's assessment and the 50 per cent lease increase. Agreements have been

The lease amount should be determined by increase in 50 per cent once in five years after obtaining a valuation report on leasing of state-owned lands.

belonging to Hanthana Estate which was leased by the Board in the year 2001 and for 64.55 hectares of land belonging to three other estates from the year 1986 to 2004 and due to equal lease amount was charged, a revenue of Rs. 32.24 million which could have been recovered to the Board had been lost.

entered in to by the Management existed in those periods. The Attorney General has consulted to resolve the issue and it is stipulated to act in accordance with the answers received to operate on future agreements.

(g) The lands 609 hectares in extent in 09 Estates belonging to the Board were leased out from the year 1986 to 2014 and the amount due from the relevant buyers amounted to Rs. 61.55 million had not been recovered by the end of the year under review.

Cannot be agreed. The receivable balance has been calculated using the 50 per cent lease increase mentioned in the Presidential Guidelines on Lands 1995. Even if the lessees were informed to pay this, some lessees had not paid it, stating that this had not affected the terms of the agreement. Therefore, amount stated in the query cannot be taken as to be received.

Land leases should be done only after charging lease amounts.

(h) An additional expenditure of Rs. 594,095 had been incurred due to the granting of a portion of 2 to 10 salary increments to 24 officers during the year under review without obtaining the approval of the relevant authorities.

After analyzing the grievances put forward by the long-serving employees, the Management has taken actions to offer two additional increments to encourage employees who were not given an increment or promotion and it was decided not to grant any such allowances in future.

Actions should be taken in accordance with the provisions of the Establishments Code when giving increments.

3.2 Operational Inefficiencies

 The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Out of 10,143 hectares of land in extent belonging to the 15 Tea Estates administered by the Board by the end of the year under review a 3,169 hectares of land had been used for Tea and Other crops and due to no measures were taken to lease or to use 5,829 hectares of land that could have been used for tea cultivation other than buildings, those lands had left in idle.</p>	<p>Although 2971 hectares of land has been proposed to be set up projects and to lease with the involvement of private entrepreneurs and the Board, that has changed due to the shift of Top Management. It is being implemented again under the new Chairman this year.</p>	<p>Actions should be taken to generate income from all lands.</p>
<p>(b) Due to the failure of Management to continuously improve the quality of tea produced by the Board and control the production cost, the contribution per kilogram of tea produced by the Board had taken a minus value and actions had not been taken to improve the contribution in the year under review as well.</p>	<p>Accepted. Due to the decline in tea prices in the years 2017 and 2018 and the relative decline in fertilizer use in the year 2018 and because of the quality of tea was low, that it could not be able to obtain reasonable price. Further, the contribution per unit has obtained minus value due to cost of production increase in 2017 on increase in labor wages which is a key symbol of the cost of production.</p>	<p>Actions should be taken to improve the quality of tea and control the cost of production.</p>
<p>(c) Although the average Medarata Tea per hectare is about 1,200 kilograms as per the Standards of the Tea Research Institute, due to not starting new plantations by removing of old plantations that exceeded the life span belonging to the Board, not applying of</p>	<p>There is no financial funding for this. In spite of that, the productivity has been increased gradually from 2016 to 2018.</p>	<p>Actions should be taken to increase the average yield.</p>

fertilizer continuously and not carrying out continuous new fillings , though the tea harvest had been in the range of 398 kg to 759 kg in 15 Estates of the Board, any action had not taken to increase that production.

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| <p>(d) Even though there are 959 hectares of nurseries which could not be able to cultivate tea and 1770 hectares of uncultivated bare land had been identified as per the Budget Estimate of the year 2018 , the Management had not taken measures to use those land for cultivation.</p> | <p>Accepted. There is no financial funding for this.</p> | <p>Actions should be taken to make maximum use of the land owned by the Board.</p> |
| <p>(e) Even though a sum of Rs. 87.38 million had been estimated to purchase fertilizer for the year under review, since a sum of Rs. 7.59 million had been spent by the Board for this purpose, the tea yield had declined by not applying fertilizer as per the requirement of the cultivation.</p> | <p>Accepted. There is no financial funding for this.</p> | <p>Applying of fertilizer required for the cultivation as planned.</p> |
| <p>(f) Although the area available for rubber cultivation is 2177 hectares as per the Hectarage Statement prepared by the Board for the year under review, only 563 hectares of rubber had been cultivated.</p> | <p>Accepted. There is no financial funding for this.</p> | <p>Fertilizer required for cultivation should be applied as planned.</p> |

3.3 Idle or Underutilized Property, Plant and Equipment

 The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) An extent of 33,567 square feet building had been leased out during the period 2011 and 2017 amounting to</p>	<p>Since the building located at the Head Office of the Janatha Estate Development</p>	<p>Actions should be taken to increase its revenues in the event of making</p>

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| <p>Rs. 22.52 million per year and as the building had not been leased again after the relevant lessees had left, more than a sum of Rs. 22.52 million which could have been earned during the year under review had lost.</p> | <p>Board was due to be taken over by the Urban Development Authority as per the plan of the Colombo Urban Development Authority, there is no possibility to release the building on long-term lease agreements. Therefore, this could not be given to the lessee.</p> | <p>continued losses by the Board.</p> |
| <p>(b) As the closure of 09 tea factories with a daily capacity of 90,500 kg by the end of the year under review within a period from 29 to 15 years and since it was failed to meet the demand of tea due to the leasing of six more factories, a 263,627 kilograms of tea valued at Rs. 131.85 million had to be bought from external buyers at auction and sell.</p> | <p>Because it was impossible to meet the 1T 1 Standard applied to the Tenders of Army and CWE and our company's tea production was inadequate under these circumstances we had to buy tea from external parties.</p> | <p>Actions should be taken to carry out the factories of the Board active.</p> |
| <p>(c) Despite the Divisional Secretary had informed that production activities could be continued in the Hanthana Uduwela Tea Factory which was renovated in the year 2015 at a cost of Rs. 4.52 million as the result of the decision of the Management to close it, the machineries and the factory valued at Rs. 18.89 million had been remained in idle since 04 June 2016.</p> | <p>The production works of the factory was temporarily stopped due to bad weather conditions in the year 2016 and it was closed based on the decisions of the then Management and the deficiencies pointed out by the Tea Commissioner at that time. However, the factory has been given to a new lessee to commence the production by now.</p> | <p>Action should be taken to activate the relevant factory immediately.</p> |

3.4 Human Resources Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Although recruitments should not be made for posts not included in the approved staff without obtaining the approval of the Department of Management Services as per the Management Services Circular No. 28 (11) of 01 August 2006, acting on the contrary, 27 officers had been recruited for 17 posts including Managers, Assistant Accountant, Financial Consultant, Private Secretary, Production Consultant who are not in the approved staff and Rs. 10.68 million had been paid as salaries and allowances.</p>	<p>The need to continue the activities of the organization and lack of experienced officers within the organization and since the institutional functions could not be delayed, the contract basis recruitments have been made to the Management with the good intentions of maintaining the Institution without the expectation of violating the provisions of the Agricultural Act No. 11 of 1972 which was enacted to establish the Institute. Further, all these recruitments were made with the approval of the Board of Directors.</p>	<p>Recruitment of officers only for approved posts.</p>
<p>(b) Although the recommendation of the Secretary of the Ministry should be obtained when re-employment of a retired officer in terms of the Public Administration Circular No. 09/2007 of 24 August 2007, twenty permanent and casual officers over 60 years of age were deployed without such approval at the end of the year under review and the Board had incurred a sum of Rs. 16.13 million for an expenditure of salaries .</p>	<p>The Estate Employees have been extended the service on contract basis and service requirements and the work of all employees has been terminated with effect from 30 April 2019.</p>	<p>Providing extension of service to officers above the age of 60 and not being recruited on contract basis.</p>

- (c) Despite the MM 1-1 salary category has been approved by the Department of Management Services dated 03 August 2011 for the posts of Manager - Human Resources and Manager – Legal, due to the recruitments made for two officers for the relevant posts by the Board and placed in the salary category of HM 1-1, the Board had incurred an additional salary expenditure of Rs. 3.58 million from April 2017 to August 2019

A Scheme of recruitment had not been prepared for this organization when recruiting for the Manager - Human Resources and Manager - Law. However, the Board of Directors has approved to recruit the highest marks applicants after checking the eligibility to perform the human resources and legal duties of the Institution. Accordingly, the Institute has taken action as per that. The Management has made arrangements to place in a suitable salary step according to their qualifications and experience.

The officers should be recruited under the salary category approved by the Department of Management Services.

4. Accountability and Good Governance

4.1 Delays in Presentation of Accounts

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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(a) An Accounting and Finance Management Consultant, Two Accountants and 11 Officers are attached to the Accounts Division of the Board and although a sum of Rs. 10.11 million had been paid for that during the year under review, financial statements for the years 2017 and 2018 had not been submitted to the Auditor General even by 31 October 2019 as per the Public Enterprises Circular No. 12 of 02 June 2003 .	Accept. Accounts reports for the year 2018 have been prepared and because of corrective journal entries should be included in some accounts , final accounts are to be prepared as soon as possible. Final Accounts for 2017 have been prepared and has been given to a private audit firm to ascertain its accuracy and once this is received, it will be submitted for audit.	Financial statements should be submitted to audit expeditiously during the financial year.

4.2 Conducting Audit Management Committees

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
(a) Although the Audit and Management Committee Meetings should be held once in every three months as per Section 7.4.1 of the Department of Public Enterprises Circular No. 12 of 02 June 2003, only two meetings had been held for the year under review.	Accept. It is informed that the audit committees could not be held as the changes in the Board of Directors due to political instability in the last quarter in the year 2018 , Four Committee Meetings in the year 2017 and 03 Committee Meetings so far in the year 2019 have been conducted.	Conducting relevant Committee Meetings in a timely manner to strengthen internal control and good governance objectives.