

## Sri Lanka State Plantation Corporation - 2018

---

The audit of the operational activities of the Sri Lanka State Plantation Corporation 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 National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 .

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

---

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16(1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the Financial Statements and Draft Annual Reports for the year 2018 those should be submitted to the Auditor General within 60 days after the closure of the Accounting year had not been presented for audit even by the date of this report in terms of Section 6.5.1 of the Public Enterprises Circular No. PED / 12 of 02 June 2003 and the Treasury Circular No. 01/2004 of 24 February 2004 .

## 2. Audit Observations

---

### (a) Non- compliance with Laws, Rules and Regulations

---

	<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i)	Financial Regulation 371 (2) of Democratic Socialist Republic of Sri Lanka	Although after obtaining an ad hoc sub- imprest, that sub- imprest should be settled within 10 days after completion of the task , it had delayed ranging from 13 days to 218 days for the settlement of sub- imprest totalled to Rs. 152,230 obtained by fifteen officers at 42 occasions.	All advances in respect of the year 2018 have been settled by now. Actions are being taken to recover the advances within 10 days which will be given in future.	Actions should be taken to recover the sub- imprests as soon as the tasks are completed.

- |              |   |   |   |  |
|--------------|---|---|---|--|
| <b>(ii)</b>  | Guideline 9.3.1 of Public Enterprises Circular No. PED/12 of 02 June 2003   | A Scheme of Recruitment and Promotion consisting of minimum qualifications required for recruitment and promotion of employees / officers had not been prepared and got approved.   | Prepare the Scheme of Recruitment and Promotion has been forwarded to the Department of Management Services for approval on 23 May 2019.  | The Scheme of Recruitment and Promotion should be got approved immediately.  |
| <b>(iii)</b> | Paragraph 2.3 of Public Enterprises Circular No. PED 01/2015 of 25 May 2015 | The transport allowance totalled to Rs. 1,450,000 had been paid as Rs. 50,000 per month for the posts of Financial Manager, Internal Auditor, Manager (Legal) and Manager (Land), who had worked in the MM 1-1 salary category and for a female officer holding a post of Vocational Training Instructor which was not in the approved staff and not entitled for the transport allowance in accordance with the circular in the year under review. | A special approval has been granted to provide transport allowance for the posts of Internal Auditor, Manager (Legal) and Manager (Land) by letter issued on 30.09.2019 by the Department of Public Enterprises.  | Transport allowance should be provided only for HM 1-1 salary category officers and if not, a special approval has to be obtained. |
| <b>(iv)</b>  | Paragraph 2.3 (ii) of the National Budget Circular dated 17 March 2016      | Although vehicles should be purchased under Operating Lease Method from eligible suppliers registered with the Central Bank of Sri Lanka, purchasing two Private Registered Vehicles for the Chairman and Working Director of the Corporation and a sum of Rs. 2.04 million had been paid in the year under review for that.  | Since the distance is less than 1000 km and unregistered vehicles should be obtained, it is very difficult to work in accordance with the above Circular. However, vehicles have been purchased enable to save a sum of Rs. 135,000 monthly to the Corporation. | Vehicles should be purchased on lease only from institutions registered under the Central Bank of Sri Lanka.                       |

- |     |  |  |   |  |
|-----|--|--|---|--|
| (v) | Paragraph 01 of Management Services Circular No. 5/2017 of 25 October 2017 | Although the maximum monthly professional allowance which can be provided for senior level officers recruited on permanent basis is Rs. 15,000 , a sum of Rs. 80,000 had been paid for 2 months as Rs. 40,000 per month in the year under review for the Manager (Legal) who is recruited on contract basis. | The service of this officer cannot be obtained paying the professional allowance and higher salaries as per the Circular No. 5/2017 . However, it has been possible to recruit a legal officer by keeping at the initial salary as per the Circular No. of 2016 at present. | Only the approved professional allowance should be paid to the approved employees. |
|-----|--|--|---|--|

**(b) Management Activities**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(i) Even though it had been mentioned that any real estate that is owned by the Corporation should not be rented, leased out , sold or disposed of in a different way without the prior written approval of the Minister under Sub-section (01) A of Section 7 of the Sri Lanka State Plantation Corporation (Amendment) Act No. 49 of 1979 , the prior written approval of the Minister had not been obtained when leasing out of 16 lands and 02 buildings of the Corporation.	Because of the above buildings were leased out many years ago it is not possible to say whether the approval of the Minister has been obtained without studying the relevant files. Except for a few of these leases, the approval of the Minister for the other lands has already received. It is expected to expedite on the recommendation of the Board of Directors for the rest of the lands.	The entire approval of the Minister should be obtained when leasing the assets of the Corporation.
(ii) During the period from the year 2002 to 2011, the Corporation had given 09 lands which bears 273.76 hectares in extent to external parties on lease and an lease amount of Rs. 26.53 million recoverable to the Corporation for that had been failed to be recovered even by 31 October 2019 .	It has been directed to the relevant division for legal advice on the lease agreement which has already failed to be paid by now. These are expected to be completed soon.	The relevant lease should be recovered immediately.
(iii) Five lands belonging to the	Out of these outstanding	The arrears lease

- Corporation had been handed over to outside agencies and parties for the construction of communication towers without entered in to agreements and the arrears lease amounted to Rs. 24.05 million recoverable for that had been failed to be recovered up to 31 October 2019.
- amount, most of these arrears should be recovered immediately. are from the Sri Lanka Broadcasting Corporation and actions has been taken to obtain written advice from the Department of Attorney General's to recover it. They have been referred to legal divisions for legal actions due to violation of several lease agreements.
- (iv)** The Opalgala Estate belonging to the Corporation decided to be leased out in the year 2002 to a private company and although it had been cancelled, actions had not been taken to settle the advance amount of Rs. 4.48 million obtained in the year 2002 from that Company even by 31 October 2019 .
- Agree with the audit Query. There is no written agreement that such money has been paid to us. However, the financial divisions confirm that such a payment has been made to the Corporation. It is necessary to find out whether there is any legal provision to pay this amount. The relevant advance should be settled promptly.
- (v)** Twenty nine acres of land in extent and 3 buildings that had been provided on lease basis by the Corporation to the external parties had been abandoned by the lessees and actions had not been taken to cancel those agreements and to recover the arrears lease amounted to Rs. 5.17 million and to re-lease under new agreements even by 31 October 2019 .
- It has been referred to cancel the lease agreements for land and buildings abandoned by these leaseholders and sent to legal sections to take further action and it is expected to take necessary actions accordingly. Actions should be taken to cancel the agreements and recover arrears of leases and take remedial action on the relevant assets.
- (vi)** A land belonging to the Corporation in Hunnasgiriya Estate had been given to the Estate Co-operative Society to commence a project called the "Hunnas Fall" without recognizing and the extent of the land without a written agreement and due to obtaining only a portion of the profit after deduction of the total expenditures from that income without considering the receiving income from the project, a large portion of income had lost.
- Actions were taken to prepare a written agreement containing the monthly rent due as per the government valuation in consultation with the Estate Superintendent of Hunnasgiriya. It is informed that the actions will be taken to include the monthly rent and other benefits also in the agreement. When the assets belonging to the Corporation are providing to external parties, those should be given under a written agreement on more favourable terms.

- |               |  |  |  |
|---------------|--|--|--|
| <b>(vii)</b>  | A number of 634,595 mosquito sticks produced without a preliminary feasibility study in 8 Estates owned by the Corporation cost at Rs. 3.34 million in the years 2017 and 2018 had been piled up in the stores of the Head Office and several Estates with unable to sell and these stocks are about to be expired by now.   | Due to the reasons such as the prices of these remained at a high level whilst compared to similar products, the knowledge of the people about mosquito sticks were low, lack of sufficient publicity, demanding of intermediaries for higher discounts as well and the stocks remained unsold and the relevant project has been implemented with more consideration of social benefits. | The market demand should be identified conducting a preliminary market feasibility study before making large-scale production. |
| <b>(viii)</b> | Although the cost of living allowance should be considered when making contributions in terms of the Employees' Provident Fund Act No. 15 of 1958 and the Employees' Trust Fund Act, No. 46 of 1980 , due to the fact that the cost of living allowance was not taken into account when calculating the employee contribution of the Corporation, the contribution amounted to Rs. 1.48 million had been paid less in the year under review. | Currently, the cost of living allowance is considered whilst making the payment of Employees' Provident Funds and Employees' Trust Funds.  | Payment of Provident Fund should be made considering the Cost of Living Allowance as well.                                     |
| <b>(ix)</b>   | Although the monthly fuel allowance of the Chairman is 170 liters in terms of Section 3 of the Public Enterprises Circular No. PED 01/ 2015 of 25 May 2015 , a 780 liters of fuel valued at Rs. 91,260 had been paid beyond that limit without the approval of the Secretary to the Ministry for the year under review .   | The relevant corrections have been made with effect from 07.02.2019 .  | Prior approval of the Secretary to the Ministry should be obtained when obtaining fuel beyond the approved limits.             |

(c) **Operational Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
<p>(i) It could not be achieved the target of 1,595 kg which was the Sri Lanka's standard annual tea production target per hectare in the year 2017 because of not removing of the plantation in the 1523 hectares of land in extent over 100 years old and turn into re-plantation and the average annual tea yield in 13 Estates belonging to the Corporation had remained in between 200kg and 863kg in the year under review.</p>	<p>Although it should be transferred to the plantation VP (Vegetation Propagation) which gives a higher yield instead of China Jat seedling tea (SD) more than 100 years old, which is considered as the mid-country tea in these thirteen Estates, the cost that has to be incurred amounting Rs. 7-8 million per hectare, soil conservation and the financial crisis of the Corporation has hindered the use of fertilizer as well and the shortage of labour has also led to reduce the yields.</p>	<p>It is necessary to expedite the removal of old plantations and to move to re-planting of higher yield plantations.</p>
<p>(ii) An extent of 1163 hectares of land belonging to the Corporation had been given to external planters and although about 1,854,985 kilograms of yield should be obtained from that portion of land as the standard average yield per hectare in the industry, the yield of leaves given to the Corporation by external planters had been limited to 102,507 kilograms or 6 per cent. The governing authority of the Corporation had not taken any action to address the issue even by 31 October 2019 .</p>	<p>Due to the inadequacy of the amount provided to external parties for a kilogram of green leaf, their neutralization had caused in reduced yields. In addition, the Corporation has assigned to obtain the harvest in the fields "C" which are only for old Seedling tea cultivation.</p>	<p>Prompt actions should be taken to obtain a standard average yield from the lands belonging to the Corporation.</p>

- (iii) Although the standard production cost per kilogram of tea should be Rs. 475 , due to that value of the Corporation had ranged between Rs. 500 - Rs. 717 , the contribution of a unit of production had ranged between minus Rs. 2 and minus Rs. 300 .
- The increase in staff salaries and the decrease in the sale price per kilo due to the poor quality of tea was a reason to this situation and not applying fertilizer on time because of the financial crisis of the Corporation was the main reason for the decline of the quality.
- Prompt actions should be taken to uplift the contribution by controlling the cost of production and raising the selling price.
- (iv) Even though the total extent of the land related to 14 Estates of the Corporation was 10,520 hectares in extent, due to the fact that only 6208 hectares of tea land in extent had been deployed for the cultivation out of that and actions had not been taken to deploy 4312 hectares of land in extent or forty one per cent belonging to the Corporation for the cultivation purpose .
- This situation has occurred due to the forty one per cent of these uncultivated extent of land located in the Knuckles Reserve.
- The entire portion of land should be deployed for the cultivation by minimizing the idle extent of land.

**(d) Underutilization of Assets**

-----

**Audit Observation**

**Comments of the Management**

**Recommendation**

-----  
 Seven out of ten factories belonging to the Corporation had remained inactive and actions had not been taken to deploy these inactive factories for the tea production activities or lease out.

-----  
 Alakolla and Galpeela factories were destroyed by fire. Another 05 factories had remained inactive. Discussions are being carried out to commence the production functions by renovating the Bhagala Factory which had remained inactive .

-----  
 Activate the closed factories with immediate effect.

**(e) Accounts Receivable and Payable**

-----

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<b>(i)</b> Actions had not been taken even by 31 October 2019 to recover a sum of Rs. 44.66 million which should be recovered from Janatha Estate Development Board and Elkaduwa Plantation Company from 22 years .	It is agreed in respect of inability to recover the receivables from Elkaduwa Plantation Company and reminder letters have been submitted for this purpose. Since the amount we owe to the institution is higher than what is due from the Janatha Estate Development Board, actions had not been taken to recover that amount.	Actions should be taken to recover the relevant money immediately.
<b>(ii)</b> Actions had been taken even by 31 October 2019 to settle a sum of Rs. 227.67 million which should be paid to 07 State Institutions including Janatha Estate Development Board for more than 07 years.	Agree with the Audit Query. Due to the financial difficulties of the Corporation, it has been impossible to settle the money .	Actions should be taken to pay the relevant money immediately.

**(f) Staff Administration**

-----

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<b>(i)</b> Although there are 89 staff in 38 approved posts in the Plantation Corporation, a sum of Rs. 2.72 million had been paid as salaries and allowances in the year under review by recruiting 6 Assistant Estate Superintendents, 05 Management Assistant Officers and 3 Drivers on contract basis exceeding that cadre.	Due to the increase in the number of Estates owned by the Corporation by 03 Estate Superintendents were recruited on an urgent need. Drivers have been recruited to provide drivers to the Chairman and the Working Director as well as to provide the drivers to the number of vehicles at the Head Office.	Employees/officers should not be recruited beyond the approved staff.



- |  |   |  |
|--|---|--|
| <p><b>(ii)</b> Recruiting of four officers on permanent basis for eight unapproved posts by the Management Services Department, four officers on contract basis and a salary cost amounted to Rs. 5.29 million had been incurred in the year under review for that.</p>  | <p>Answers have been given under (a) above.</p>   | <p>Officers/ employees should be recruited only for approved posts .</p>                                     |
| <p><b>(iii)</b> Although a permanent officer should be appointed to the post immediately after a vacancy occurs in accordance with Paragraph 5.2 of Chapter II of the Establishments Code an officer had not been appointed on permanent basis for the post of Manager (Legal) which has been vacant since 2008.</p> | <p>Actions have been taken to publish an advertisement in Daily News and Dinamina Newspapers on 11.10.2019 to recruit a Legal Manager</p>   | <p>Permanent Officers / Employees should be promptly recruited for the vacant posts.</p>                     |
| <p><b>(iv)</b> Due to the granting of 2 to 5 increments in the years 2017 and 2018 for thirty-eight persons without obtaining the approval of the relevant authorities additional salary costs amounted to Rs. 1.22 million had to be incurred during the year under review.</p>                                     | <p>Due to the Rs. millions of profits the Corporation received as at 31.05.2017, additional increments were made subjected to the approval of the Board of Directors on 17.08.2017 to motivate employees.</p> | <p>Actions should be taken to comply with Chapter VII of the Establishments Code when giving increments.</p> |