

Sri Lanka Tea Board -2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Tea Board as at 31 December 2012 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards (SLFRS/ LKAS)

(a) LKAS 16

- (i) Fair value of lands at Gampola and Bandarawela Regional Offices shown in the fixed assets account as Rs. 17,000 and Rs. 224,280 respectively had not been brought to accounts.
- (ii) Fully depreciated assets purchased at the cost of Rs.56.3 million which are being used at present at Head Office and Regional Offices had not been revalued and brought to accounts.

(b) LKAS 39

A sum of Rs. 4,329,769 receivable from Polhena Tea Factory since 1995 had been taken into accounts without considering the possibility of recoverability.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) License renewal fees of tea manufacturers and traders received in 2011 amounting to Rs.7,233,260 had been remained in deferred renewal income in the statement of financial position without identifying and adjusting in the accounts as at the end of the year under review.

- (b) Registration fees of refuse tea dealers, tea packers, tea exporters and warehouses amounting to Rs.5,621,928 received in 2010 for the year 2011 had been remained in Received in Advance Account without being adjusted to the revenue even up to the end of the year under review.
- (c) License fees received in 2012 for the year 2013 from refuse tea and green tea leaf dealers amounting to Rs.2,870,000 and Rs.8,992,795 respectively had been shown under trade payables without being shown under differed renewal income account.
- (d) Employee and employer contributions of the Employees Provident Fund for the month of December 2011 amounting to Rs. 1,350,250 had been brought to accounts as expenses for the year under review, thereby the Employees Provident Fund expenses had been overstated by the same amount.
- (e) Advances amounting to Rs.1,464,094 received from the participants of the trade fairs conducted in 2010 and 2011 had been shown as payables without adjusting to the trade fair expenses.
- (f) Tea promotional and marketing levy paid in advance by the exporters as deposits as at the end of the year under review had been taken into the equity without showing as a current liability. The details of those deposits were not made available for audit

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs. 25,000,000 shown as receivable for more than five years from Janatha Estate Development Board (JEDB) had not been recovered even up to the end of the year under review. However, a provision had been made for this amount under bad and doubtful debts as the recovery was doubtful. Further, according to the Committee on Public Enterprises

meeting held on 19 June 2012, the JEDB and the Board had arrived at a decision to get the ownership of the Ceylon Tea Museum at Hantana, belonging to the JEDB worth of Rs. 16 million and to write off the balance of Rs. 8 million. However this process had not been completed up to the date of audit on 31 January 2014.

The Chairperson of the Board had stated that the Board has attended several meetings with the Ministry officials to finalize this matter with the JEDB in order to expedite the transferring process of the ownership.

- (b) The Board had provided subsidies to the Tea Factories and Estates for the factory modernization and replanting amounting to Rs. 2,669,759 from the own funds of the Board by exceeding the Treasury Grants given for this purpose during the year under review. Although this amount could not be recovered from the Treasury, the Board had accounted as receivable from the Treasury.
- (c) An advance amounting to Rs.261,383 receivable from the welfare society had not been recovered for more than three years. No action had been taken to recover even in the year under review.
- (d) Provisions for data processing charges and staff travelling amounting to Rs. 53,602 had been shown under current liabilities for more than three years and no any action had been taken by the Board to settle even in the year under review.

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

Instances of non-compliance with the following Laws, Rules, Regulations etc., observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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<p>(a) (i) Section 49 of Tea Control Act No.51 of 1957 and Section 25(3) of Sri Lanka Tea Board Law No. 14 of 1975</p>	<p>Registration fees, registration renewal fees and license fees had been increased by considerable amounts from 2011 as per the Board decision on 29 July 2010 without obtaining the approval of the Cabinet of Ministers and had not been published in the Government Gazette according to the Acts.</p> <p>The Chairperson of the Board had stated that this matter has been already referred to the Attorney General.</p>
<p>(ii) Sections 13 and 14 of Sri Lanka Tea Board Law No.14 of 1975</p>	<p>The establishment and operation of the Cess Fund had not been carried out in compliance with the provisions of the Act.</p> <p>The Chairperson of the Board had stated that Cabinet approval also had been granted to amend the Act. Accordingly, a Sub Committee had been formed to process the required amendments to this Act.</p>

- (b) Section 132 of Inland Revenue Act No. 10 of 2006 The PAYE tax had not been deducted and remitted to the Department of Inland Revenue from a project consultant appointed to the Tea Promotion Division.
- (c) Government Financial Regulations;
- (i) F.R. 507 Book balances and values had not been taken in to the board of survey reports as per FR instructions. Therefore, the discrepancies between the quantity recorded in the books and physically available balance were not shown in the Board of survey reports and it was observed that the objectives of the board of survey were not fulfilled.
- (ii) F.R.676 (2) Nine official advertisements were not published in three languages and 07 official advertisements were published in one language for more than one instance without adhering to the Regulation.
- (d) Treasury Circular No.842 of 12 December 1978 The register of fixed assets had not been updated and maintained properly as per the circular instructions. The Chairperson of the Board had stated that the fixed assets register is being updated.

(e) Public Administration Circulars;
(i) No 41/90 of 10 October 1990

Fuel consumption of motor vehicles had not been tested once in every six months.

(ii) No 14/2008 of 26 June 2008

An allowance of Rs. 75,000 had been paid as monthly transport rent to the Chairperson of the Board from December 2011 to May 2012 contrary to the Circular instructions.

The Chairperson of the Board had stated that the Board approval was given for the allowance.

(f) National Procurement Agency Circular
No 09 of 01 March 2006

(i) Procurement procedure had not been followed for the building renovation contract valued at Rs.6.28 million.

(ii) Contracts for purchasing wooden furniture amounting to Rs.4.68 million had been awarded to unregistered suppliers without adhering to the Procurement Guidelines (Reference 3.4).

(iii) An advance amounting to Rs.500,000 had been paid to purchase a motor vehicle valued at Rs.6.5 million before the approval of the procurement committee contrary to the Procurement Guidelines (Reference 2.4).

The Chairperson of the Board had stated that, the motor vehicle had been purchased an urgently to save Rs. 2 million due to the increase of custom duty and the Procurement Committee discussed and agreed to pay an advance before the committee was able to meet formally for the approval.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating activities of the Board for the year ended 31 December 2012 had resulted in a net deficit of Rs.11,390,437 as against the net surplus of Rs.10,859,989 for the preceding year, thus indicating a deterioration of Rs.22,250,426 in the financial results. This deterioration was mainly due to the decrease of license fee, registration and renewal income and an increase of administration and operating expenses of the Board for the year under review.

2.2 Performance

2.2.1 Functions of the Board

The main functions of the Board are regulating the activities of the tea industry in Sri Lanka, marketing and promotion of “Ceylon Tea” in Sri Lanka and in abroad, conducting market research on tea and providing market intelligence to the tea industry and providing laboratory and technical services to the tea trade through Tea Commissioners Division, Tea Export Division, Tea Promotion Division, Analytical Laboratory and Tea Tasting Unit of the Board.

(a) Performance of Tea Industry

According to the Financial Statements and the data made available for audit, tea Production and Exports from Sri Lanka and the expenses incurred by the Board for the improvement of tea production and tea export promotion for the year under review as compared with four preceding years are given below.

Year	Tea Production in Sri Lanka	Development Expenditure incurred by the Tea Board for the Improvement of Tea Production	Tea Exports from Sri Lanka (Including Re-exports)	Promotional Expenditure incurred by the Board for increasing Tea Exports	Cost of Production per Kilogram	Selling Price per Kilogram
	Kilograms (Million)	Rs.	Kilograms (Million)	Rs.	Rs.	Rs.
2008	318.7	3,644,246	319.8	109,358,718	231.49	310.81
2009	291.1	24,552,506	289.7	102,286,182	269.01	360.45
2010	331.4	10,394,094	324.4	58,843,391	313.17	370.61
2011	327.5	29,133,757	322.6	25,755,657	355.02	360.53
2012	328.4	23,669,759	319.9	36,021,266	Not given	392.03

The following observations are made in this regard.

- (i) Although tea promotional expenditure had increased by Rs. 10.26 million, the tea exports had decreased by 2.7 million kilograms as compared with the previous year.
- (ii) Tea production had increased only by 0.9 million kilograms as compared with the previous year.
- (iii) According to the annual reports of 2011 and 2012, Tea Research Institute, Tea Small Holdings Development Authority and the Board together with had designed a Factory Based Tea Development Programme specially to improve the productivity of small holdings and the tea factories. It was planned to appoint an extension officer (Field Coordinator) under this programme to monitor the productivity of tea small holdings and handling of green tea leaf. However, it was observed that this activity had not been implemented up to the end of the year under review.

The Chairperson of the Board had stated that this programme had been launched in Matara and Mathugama Regional Offices and due to the certain practical difficulties related to the team work this could not be implemented in the other Regional Offices.

(b) Participation for Foreign Trade Fairs

The foreign trade promotion works had been undertaken by the Board and sponsorships were provided during each year from 2009 in connection with the promotion of Pure Ceylon Tea Brands at the trade fair of International Food and Beverages held in the major tea importing countries. The participation for foreign trade fairs from 2009 are given below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Number of Exhibitions conducted by the Board	17	15	18	25
Number of Companies participated	not given	94	101	81

(c) Registration Activities

The registration, certification and issue of licenses for the following tea manufactures and traders as at the end of each year from 2009 are given below.

<u>Registrations and issue of Licenses</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	Nos.	Nos.	Nos.	Nos.
Greenleaf Traders	1,982	1,914	1,866	1,703
Active Tea Factories	702	695	712	697
Tea Exporters	383	363	347	325
Tea Packers	412	392	375	351
Importers	192	184	57	51
Tea Warehouses	446	404	359	229
Trade mark (Lion Logo)	98	99	96	94

(Annual Reports 2009 – 2012)

The following observation is made in this regard.

According to the annual report of 2012, the subsidies for factory modernization had been decreased by Rs. 8.2 million and an increase of 16 non operating factories also were observed as compared with the previous year.

(d) Activities of the Tea Tasting Unit

The samples of tea tastings carried out in each year by the Tea Tasting Unit to maintain the minimum quality standard/monitoring ISO 3720 at any given point of dispose of tea and issue of Lion Logo Certificate for Branded products for consumer packs, monitoring and ratification of private sales and direct sales are given below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>Nos.</u>	<u>Nos.</u>	<u>Nos.</u>	<u>Nos.</u>
Tea Tasting for Quality Control				
- Pre auction	299,770	151,767	164,336	130,007
- Pre shipment	4,915	4,981	6,183	6,620
- Pre Imports	1,907	4,615	6,404	5,552
- Post imports	1,299	3,068	2,761	2,597
Ratification of Private sale panel valuation certificates	6,632	5,255	5,025	11,523
Ratification of Direct Sales	1,768	1,550	1,470	1,349

(e) Analytical Laboratory Services

The samples tested and the income earned in each year by the Analytical Laboratory Service maintained with the objective of improving the quality standards management by issuing quality standard certificates for the samples received internally from the Tea Commissioner's Division and externally from the tea exporters, importers and producers were as follows.

Year	Number of Samples tested	Income
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		Rs.
2012	5,042	4,858,000
2011	7,933	6,071,200
2010	7,025	4,171,600
2009	7,679	3,787,900

(Annual Reports 2009 – 2012)

The following observations are made in this regard.

- (i) It was observed in audit that the income from the samples testing had been decreased by Rs 1.2 million in 2012 due to the decrease of samples tested by 36.4 per cent as compared with the previous year.
- (ii) In view of the staff shortage of the Laboratory for testing of samples, the consultation and assistance of the staff of the Tea Research Institute had been obtained from October 2011 for one year on the basis of payment of 50 per cent of the net income of the Laboratory and payment of consultancy fee of Rs. 30,000 and Rs. 25,000 for other staff per month. Although, Rs.52,000 and Rs.335,000 had been paid as consultancy fees and other payments in 2011 and 2012 respectively, as per the progress reports it was observed in audit that the testing were not being done properly. The 50 per cent of the net income of the Laboratory had also not been paid for the agreed period.

The Chairperson of the Board had stated that to overcome the industry needs on testing facility at the Board with staff shortage in September 2011 the Board entered into a Memorandum of Understanding (MOU) with Tea Research Institute to obtain Scientists for fee pay basis. Since the objectives had not been achieved as per the MOU, no income was generated as expected.

2.2.2 Levy for Tea Promotion and Marketing Strategy

A sum of Rs.2,535.22 million had been collected for Tea Promotion and Marketing Strategy during the period from 01 November 2010 to 31 December 2012 by the Board from tea exporters at Rs.3.50 per kilogram of tea exported in terms of gazette notification published on 27 October 2010. Following observations are made in this regard.

- (a) In the absence of a proper plan and management, a sum of Rs. 120.62 million or 4.76 per cent out of the total of Rs.2,535.22 million of such collection had only been used for promotion and marketing strategies up to the end of the year under review due to delay in conducting promotional activities.
- (b) Budgetary provisions of Rs. 1,150 million had been made for promotion and marketing strategies for the year under review. Out of this Rs. 36.02 million or 3.13 per cent only had been utilized during the year under review although the actual collection of the levy were exceeded by Rs.36.44 million.
- (c) Although the main objective of the levy collection was to use on Tea Promotion and Marketing Strategies, the money had been invested on short term investments and earned a sum of Rs. 211.48 million as interest during the year under review due to delay in conducting promotional activities.
- (d) Although a sum of Rs. 2.3 million had been provided to conduct annual tea competition among the tea estates, this activity had not been conducted during the year under review as planned.

- (e) According to the gazette notification dated 27 October 2010, a periodic review of the progress should be made by the persons who are stakeholders of the industry once in every two years, but no evidences were made available for audit whether such review had been carried out by the stakeholders. However, according to the draft annual report of the year under review, the Honorable Minister of Plantation Industry had reconstituted the Promotion and Marketing Committee (PMC) to be in line with the priorities and expectations of the industry and the trade and the new PMC will be responsible to formulate a new strategic marketing plan which will be launched during the latter part of 2013.
- (f) A project consultant had been appointed on contract basis for a monthly salary of Rs.130,000 on 02 August 2012 for the proposed promotional activity of Global Campaign for New Marketing Cell. However this activity had not been implemented up to the date of audit on 30 September 2013 and the project consultant also had been resigned from the service on 01 August 2013.
- (g) According to the Statistical Bulletin of the Annual International Tea Committee 2012, Turkey, UK, Egypt, Morocco and Afghanistan are the first five tea consumers of the world. However, it was observed that no any promotional activities had been conducted in those countries by the Board during the year under review. As per the above bulletin, the position of Ceylon Tea was in third place continuously for the past four years. However no proper promotional plan had been introduced by the Board to catch up the Global Market.

2.2.3 Activities not conducted as per Action Plan

Following activities had not been conducted during the year under review as planned.

Activity -----	<u>Amount Estimated</u> <u>Rs.million</u>
Automation of Pre post auction procedures	60
Soft Loan Scheme under Revolving Fund	10
Minimize post harvest damage	20

The Chairperson of the Board had stated that the Automation of Auction programme would be proposed to conduct by Colombo Tea Trader Association. However, due to a policy decision, this programme had not been implemented. The Soft Loan scheme under Revolving Fund had been implemented and about Rs. 05 million had been spent for 09 Society Organizations and the programme of minimize post harvest damage had not been implemented due to the lack of funds.

2.3 Human Resources Management

According to the information provided by the Board, the cadre position of the Board as at 31 December 2012 is given below.

Post -----	Approved Cadre -----	Actual Cadre -----	Vacancies -----	Redundant posts -----
Senior Level	04	03	01	-
Secondary Level	27	23	12	04
Tertiary Levels	193	155	40	06
Primary Level	76	69	07	-
	-----	-----	-----	-----
Total	300	250	60	10
	=====	=====	=====	=====

The following observations are made.

- (i) According to the letter No.DMS/C/2/02/62 dated 01 December 2011 received from the Department of Management Services, 300 Nos. of employees were approved and 10 Nos. of redundant posts had been allowed personal to the holders, those who were in service at the time. There were 60 vacancies as at 31 December 2012 including Director (Administration and Finance), Deputy/Asst. Director (IT), Deputy and Asst. Tea Commissioners, Technical Assistants (Lab) etc.
- (ii) Thirteen advertisements in three languages had been published in news papers for a vacancy of the Board during the year under review by spending Rs. 803,483. It was observed that out of the above thirteen, two advertisements costing Rs.151,782 were published with mistakes and another six advertisements costing Rs.317,296 were fruitless as no any applicants were being selected.

2.4 Assets Management

The following observations are made

- (a) The building occupied by the Tea Commissioner's Division had been vacated on 31 December 2002 and the rent advance amounting to Rs. 2.4 million deposited with the owner of the premises had been recovered by the Board through an arbitrator by spending Rs. 2.8 million since 2005 to 30 May 2011. However, the owner of the premises had appointed an arbitrator against the Board in October 2008 by claiming Rs.4.9 million with 20 per cent interest and 15 per cent value added tax for the damages to the building and failure to restore the area of the building to be leased from January to September 2003. The Board had appealed against this case and the proceeding are still in process.
- (b) A sum of Rs. 9,038,930 had been paid by the Board to a private institution up to 31 December 2009 for the supply and installation of Specialized Application Software and related Hardware to support the functions required in each Division of the Board. The delivery and installation of this Network System was scheduled to be completed within 90 days in terms of the agreement entered into between both parties on 07 April 2005. The period of completion had been extended mutually up to 01 April 2008 due to lapses in both parties. However, it was observed in audit that part of this activity valued at Rs.2,628,958 had only been completed and the balance had been shown in the accounts as work in progress without being completed even up to the end of the year under review.

(c) Following advances had been refunded without being utilized for the intended purposes.

Date of Advance	Reason	Amount	Date refunded	No of days retained in hand
-----	-----	-----	-----	-----
		Rs.		
30.01.2012	FAO/IGG 50% for Beverage	100,000	02.03.2012	31
11.10.2012	Misc. Expenses	20,000	22.10.2012	10
18.07.2012	Analyzing of 08 samples	16,800	26.10.2012	96

(d) Bank balances in the Embassy accounts in Canada, Poland, Germany and Bangkok totaling Rs.611,178 were idling for more than three years.

3. Systems and Controls

Observations made in systems and controls during the course of audit were brought to the notice of the Chairperson of the Board by my detailed report issued in terms of Section 13(7)(a) of the Finance Act. Special attention is needed in respect of the following areas.

- (a) Inventory control
- (b) Accounting
- (c) Receivables and payables
- (d) Promotional activities
- (e) Maintaining Accounting Records

