

Tea Research Board - 2015

The audit of financial statements of the Tea Research Board for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 15 of Tea Research Board Act, No.52 of 1993. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Tea Research Board as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

(a.) Sri Lanka Public Sector Accounting Standard 02

The Government grant for recurrent expenditure amounting to Rs. 341,321,000 should have been shown as funds generated from operations in preparing the cash flow statement for the year under review, but it was shown under funds generated from financial activities. Furthermore, provisions for doubtful loans, incentives, and amortization of the year under review totalling Rs. 7,214,280 had not been taken into consideration in preparing the cash flow statement.

(b.) Sri Lanka Public Sector Accounting Standard 07

- (i) Assets valued at Rs. 49,983,824 were still in use despite being fully depreciated, due to failure in reviewing the useful life of the non-current assets annually. Action had not been taken accordingly to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.
- (ii) The fair value should be shown in the accounts by revaluing the assets when the fair value of an asset materially differs from the carrying amount. However, the Board had not done so in respect of fixed assets.
- (iii) Lands and buildings are assets separable from each other, and they should be classified separately. Nevertheless, lands and buildings of which the net value amounted to Rs. 202,749,711, shown in the financial statements as at 31 December of the year under review, had not been so classified. Accordingly, the accuracy of the depreciation on the buildings could not be verified.

2.2.2 Accounting Policies

If the accounting system utilized for the preparation of financial statements does not disclose the manner in which any specific accounting affair should be dealt with, the Best Practice should be more appropriately adopted therein and an accounting policy should be formulated, followed and stated. Nevertheless, the Board had not taken action accordingly in connection with the following assets.

- (a) Amortization and accounting of intangible assets valued at Rs. 2, 404,163 shown in the statement of financial position as at the end of the year under review.
- (b) Recognition of the tea cultivation costing Rs. 174,913,032 shown in the statement of financial position as at the end of the year under review, separately after being classified as mature and immature cultivation.
- (c) Assessing and accounting the value of 5,654 high value plants on the lands belonging to the Board .

2.2.3 Accounting Deficiencies

The following observations are made.

- (a.) The contribution to the Employees' Provident Fund in respect of the staff and the labourers should be computed by adding the cost of living allowance to the basic salary. However, due to failure in doing so during the period from January, 2006 to 30 May 2012, a sum of Rs. 36,986,901 had to be remitted to the Fund as at 31 December 2015, but no provisions had been made in that connection.
- (b.) As the final stock of made tea remained unsold in the year at the tea factories, had been accounted as sales on credit in computing the sales income, instead of being disclosed in the accounts, the tea sales income, and the debtor balance of the year, had been overstated by a sum of Rs. 2,884,584.
- (c.) Although buyers had been given 12,592 Kg of refused tea for sale from the tea production of the year under review by following Procurement procedures, the sales value of Rs. 273,667 had not been accounted under receivable income.

2.2.4 Unexplained Differences

The value of the stock of made tea at the St. Coombs Estate, amounted to Rs. 2,276,671 as at 31 December 2015, but the balance amounted to Rs. 2,381,511 as per the ledger observing a difference of Rs. 109,840.

2.2.5 Lack of Evidence for Audit

Due to failure in maintaining registers including information on the balance stocks of chemicals stored at the warehouses of each research division after being purchased for researches, information sufficient for the confirmation of the value of those balance stocks had not been made available to audit.

2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

**Reference to Laws, Rules,
Regulations, and Management
Decisions**

Non-compliance

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| (a.) | Section 4.1 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | A Public Officer sent abroad for study of training for over one month should be required to sign an Agreement before he leaves the Island, undertaking to serve the Government for a minimum period specified in the Agreement. Nevertheless, action had not been taken accordingly, in respect of the foreign trips of the officers. |
| (b.) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) | Financial Regulation 104 (2) | Although 05 vehicles belonging to the Institute had met with accidents in 06 instances in the year under review, reports on the losses and damages had not been reported to the Auditor General in accordance with the Financial Regulations. |
| (ii) | Financial Regulation 177 (1) | Monies collected daily should be remitted to the bank on the same day or at the earliest possible opportunity, but action had not been taken accordingly in connection with the tea sales income of the St. Coombs Estate. |
| (iii) | Financial Regulation 316 (2) | Records of the articles lodged in, or withdrawn from safe custody, should be maintained by the officer responsible, but such a register had not been maintained in respect of the monies lodged in the safe of the Institute. |
| (iv) | Financial Regulation 317 and 318 | The keys and duplicate keys of strong boxes should be kept in the custody of an officer responsible, but the keys of the safe of the Institute, had been kept in the custody of the Cashier. |
| (v) | Financial Regulation 341 | A register should be maintained on form G.A.-N 20 in respect of the Counterfoil Books, but it had not been so done. |
| (vi) | Financial Regulation 397 | The Paying Officer should frequently check as to whether the bank balance is sufficient to make all the payments made through the cheques. Nevertheless, as a result of failure to do so, an overdraft balance of |

Rs. 1,602,383 had existed in the bank account No. 1571 maintained at the Corporate Branch of the Bank of Ceylon by the Board as at the end of the year under review.

- (c) Public Finance Circular, No. 03/2015, dated 14 July 2015 Advances not exceeding Rs. 100,000 , should be given in a single instance, but advances ranging from Rs. 101,880 to Rs. 1,100,000 had been given by the Board in 13 instances.
- (d) Treasury Circular, No. 842, dated 12 December 1978. The Register of Fixed Assets had not been updated properly, and the lands belonging to the Board, had not been included therein.

3. Financial Review

3.1 financial Results

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2015 had been a deficit of Rs. 13,302,192 as compared with the corresponding deficit of Rs. 36,251,018 for the preceding year, thus indicating an improvement of Rs. 22,948,826 in the financial result as compared with the preceding year. Receipt of Government grants for recurrent expenditure amounting to Rs. 41,595,000 in excess of that of the preceding year, and the increase in the net profit of the St. Coombs Estate and the factory by a sum of Rs. 2,885,648 representing 60 per cent, had mainly attributed to the said improvement.

The analysis of the financial result of the year under review and 04 preceding years revealed that a financial deficit had continuously resulted in from the year 2011 to 2015. However, by considering the employee remuneration, Government taxes, and depreciation on non-current assets, the contribution of the Board had been a plus value from the year 2011 up to the year under review, whereas the contribution for the year 2011 amounting to Rs. 58.53 million had slightly decreased to Rs. 53.14 million by the year 2013. Nevertheless, the contribution had gradually increased from the year 2014 and reached Rs. 157.1 million by the end of the year under review.

3.2 Analytical Financial Review

The ratio of operating profits in respect of the St. Joachim Estate belonging to the Board had been a minus value for the year under review and the preceding year, representing 19.03 per cent and 7.16 per cent respectively. The increase in the operating loss had mainly been attributed by the decrease in the yield of tea, and the deterioration of income from the sale of made tea by 46 per cent.

3.3 Legal Cases Instituted by or against the Board

The following observations are made.

- (a.) Lands of about 05 hectares in extent belonging to the St. Joachim Estate, had been encroached by external parties for a period of more than 25 years, and the Board had filed a case in Court to acquire those lands.
- (b.) As 06 officers who had proceeded abroad by obtaining full-pay study leave and never returned, had not acted as per the agreement entered into with the Board, cases had been filed in Courts even before 5 years to recover the sureties amounting to Rs. 18,552,991.
- (c.) A case had been filed by an external party to acquire a plot of land by naming the Board as the third defendant
- (d.) An employee of the Board had filed a case in the Labour Tribunal against the Board requesting reinstatement in the position that he had held previously.

4. Operating Review

4.1 Performance

The objectives of the Tea Research Board in terms of Sub-section 05 of the Tea Research Board Act, No.52 of 1993, and Amended Act, No. 30 of 2003, are as follows.

- (i) To conduct, assist and encourage, scientific and technological research into, and investigations of, all problems and matters affecting the production and manufacture of tea, including the prevention and control of pests affecting tea, the prevention and control of diseases affecting tea and the improvement of the quality of tea; as well as the diversification of products manufactured from tea ;
- (ii) To conduct, assist and encourage, research, into the economic viability of the tea industry in Sri Lanka including future economic trends in such industry;
- (iii) To maintain and administer the Tea Research Institute situated at Talawakale, and its substations, in accordance with the rules of the Board ;
- (iv) To establish maintain, relations with research institutions, in Sri Lanka and abroad;
- (v) To conduct, in the discharge of its functions, joint study programmes, seminars or symposia, with foreign research institutions and research institutions in Sri Lanka;
- (vi) To promote investment in tea research ;
- (vii) To undertake the collection and dissemination of data on the tea industry and to conduct research to ascertain the development potential of the tea industry ;

- (viii) To advise the Minister on appropriate policies in relation to the tea industry and to co-ordinate with other relevant agencies.

The progress on the performance of the researches and other activities conducted by the Board for achieving the said objectives, are as follows:

- (a.) A majority of research projects in progress are long term projects, and it was observed in audit test checks that 08 projects commenced by utilizing Rs. 6,718,075 out of the research and development grants received annually from the Treasury, had been halted halfway without achieving the expected objectives.
- (b.) Although it was stated in the reports of the research divisions made available to audit that the project A 10.4 in the agronomy division had been discontinued in the year 2012 after being considered as a project with low impact on the approval of the recommendations of the Research Consultative Committee, a sum of Rs. 2,514,611 had been incurred thereafter in that connection.
- (c.) Three projects planned to be implemented by incurring a sum of Rs. 3.93 million in accordance with the Action Plan of the year under review, had not been implemented during the year.
- (d.) The financial performance of the following research projects had been lower than 50 per cent as per the progress reports of the year under review.

Division of Projects	Estimated Cost Rs.	Actual Cost Rs.	Percentage Utilized.
A 1.3	2,223,774	277,109	12.5
A 30.5	2,807,140	499,097	17.8
A 50.4	2,848,029	1,115,957	39.2
A 50.6	1,292,045	509,271	39.4
A 15.1	3,835,045	1,833,290	48

- (e.) As the utilization of machinery distributed to the tea smallholders relating to the project of mechanizing the field activities of tea cultivation under the other special projects, had been at a lower level within the filed, it was observed in audit test checks that the objectives of the project had not been achieved effectively.
- (f.) Although agreements had been signed with external institutions to hand over the technology of the methodologies introduced by the Board, no royalties whatsoever had been received in the year 2015.
- (g.) The following observations are made on the Action Plan for the year under review and the performance of the St. Coombs, and St. Joachim Estates managed by the Board.
- (i) According to the Action Plan of the St. Coombs, and St. Joachim Estates, purchase of raw tea leaves amounted to 528,000 Kg, and 1,915,347 Kg

respectively, whilst the actual purchases had been 437,318 Kg, and 955,206 Kg, indicating a variation of 17.17 per cent and 50.13 per cent.

- (ii) According to the Action Plan, the yield per hectare of the St. Joachim Estate had been 923 Kg, whereas it was 619 Kg as per the Performance Report.
- (iii) According to the Action Plan of the St. Coombs Estate, the expected percentage of refused tea was 8 per cent, but the actual percentage was 10.09
- (iv) The quantity of sale of tea and the production costs in respect of each estate as compared with the preceding year, are as follows.

Description -----	St. Joachim Estate		St. Coombs Estate (Including the Lamilier Estate)	
	2015 -----	2014 -----	2015 -----	2014 -----
Sale of Tea (Kilo Grams)	203,273	346,446	393,378	369,706
Cost of Production (Rs. per Kg)	436.15	457.61	481.10	500.04
Average Net Sales (Rs. per Kg.)	393.09	432.85	475.93	493.97

The following observations are made in this connection.

- (i) The sales of the St. Joachim Estate had decreased by 143,233 Kg, as compared with the preceding year. Although the production cost per Kg of tea had decreased by 5 per cent, the average net sales price had decreased by 9 per cent.
- (ii) The sales of the St. Coombs Estate had increased by 23,672 Kg during the year under review as compared with the preceding year. However, a cost more than the average net sales price per Kilogram of tea, had been incurred.

4.2 Management Activities

The following observations are made.

- (a.) As the chemicals purchased for research activities had been stored at each of the research divisions instead of issuing the required quantity by storing at a centralized store, the same chemical had been stored at several places in various quantities, certain chemicals had been expired, and redundant stocks had existed.
- (b.) The books of the library at the head office of the Board had not been physically verified since the year 1978, and 186 out of the books borrowed during the 20 preceding years (1985 – 2016) had not been returned. Action had not been taken either to get those books back or settle the value.

- (c.) Action had not been taken even up to 31 August 2016 to take over the ownership of 5 vehicles being used by the Institute.

4.3 Underutilization of Funds

The following observations are made.

- (a.) Sums of Rs. 5,699,717 and Rs. 3,300,989 received from the Treasury for the Uplifting the Living Standards Project and the Mechanization Project in the years 2013 and 2014 respectively, had not been utilized even in the year under review.
- (b.) The sum of Rs. 2,971,000 received for the capital expenditure of the year under review had not been utilized and carried forward for the ensuing year.

4.4 Idle and Under Utilized Assets

The following observations are made.

- (a.) The stock of medicines valued at Rs. 210,408 kept in the custody of the Medical Assistant of the St. Coombs Estate, had remained unused for a period of 03 years.
- (b.) A quarters of category "A", 4 quarters of category "C", and 19 quarters of category "D" belonging to the Board had remained idle without being occupied.
- (c.) The plant capacity of the St. Coombs, and St. Joachim estates had been 8,000 and 15,810 Kg of raw tea leaves per day respectively. However, it was observed that the average actual utilization of those plants had been 5,000, and 6,253 Kilograms per day representing 62 per cent and 17 per cent respectively.
- (d.) The E.C.P.4 Drier machine of the St. Coombs Estate had remained unused for a period of 15 years.
- (e.) Of the 04 roller machines installed at the inception of the factory, only 02 machines are utilized in the production process at a time whilst the other 02 machines remain underutilized.
- (f.) Although the lands belonging to the St. Joachim Estate had been cultivated with paddy, rubber, coconut, and other crops, action had not been taken to get the income from the paddy lands of 8.74 Hectares in extent, to the Institute. Furthermore, action had not been taken to count and record the number of trees at the rubber and coconut estates.
- (g.) Despite being identified that 05 tractors belonging to the Institute, had been out of running condition, action had not been taken to dispose them, whilst a motor vehicle in running condition had remained idle for a period of 05 years without being repaired.

4.5 Delayed Projects

In accordance with the contract agreement for the improvement of the water supply system of the Board, the project should have been completed by 31 January 2015, but due to failure to act accordingly, the period had been extended up to 09 September 2015. Nevertheless, the project had not been completed even by 25 August 2016.

4.6 Personnel Administration

The approved cadre and the actual cadre of the Board as at 31 December 2015 stood at 443 and 241 respectively. Accordingly, 202 posts had fallen vacant with 91 posts in excess. The following observations are made in this connection.

- (a.) One hundred and seven non-executive posts remained vacant, and the number of approved posts of the Research and Development Technology Officer, and the Extension Officer included therein had been 50 and 24 respectively. Of that, 43 and 14 posts representing 77 per cent had remained vacant. Hence, it was observed in audit that the research and Extension activities of the Board could not be completed within the targeted period as planned.
- (b.) The post of Deputy Director (Administration) had remained vacant since the year 2012, and applications had been called by publishing newspaper advertisements. However, the post remained vacant even as at 31 August 2016 as qualifications had not been met in accordance with the Scheme of Recruitment.
- (c.) In terms of the Public Administration Circular No.25/2014 dated 12 November 2014, 112 employees recruited on temporary or casual basis and already in the service (105 posts of Primary Grade and 07 posts of Management Assistants) had been granted permanent appointment with effect from 24 October 2014. However, the number of posts of labourer approved under PL-1 as at 31 December 2015, had been 65, but due to the said appointments, an excess cadre of 91 employees had arisen.

4.7 Apparent Irregularities

The following observations are made.

- (a.) All products of tea should be marketed by producing at the tea auction through the broker company, but 224 Kg of tea for which 02 invoices had been issued under the name of the broker company in the year under review, had been misused by the management of the factory.
- (b.) Although it should be verified as to whether the relevant task is feasible prior to releasing the advance to an external institution, a private institution had been paid an advance of Rs. 110,124 in the year 2011 to purchase a Water Still Unit for the regional office, Mathugama. However, it was identified that the institution had been closed, but the said value had not been recovered.

5. Accountability and Good Governance

5.1 Presentation of Accounts

In accordance with Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, financial statements should be presented to the Audit within 60 days after the closure of the financial year. However, financial statements for the year under review had been presented to the Audit on 01 July 2016. Furthermore, the draft Annual Report had not been made available to audit even up to 30 October 2016.

5.2 Internal Audit

An Internal Audit Unit had been established in the Institute, but no examination relating to the financial or physical performance had been conducted on the main function of the Board being research activities.

5.3 Budgetary Control

As significant variations ranging from 35 per cent to 100 per cent had been observed between the budgeted income and expenditure, and the actuals, it was observed that the budget had not been made use of as an effective instrument of management control.

5.4 Unresolved Audit Paragraphs

- (a) In order to reimburse a monthly labour allowance for the maintenance of quarters of the Director, Deputy Director and officers in charge of the Regional offices, the approval of the Board of Directors had been granted on 24 May 2007. This Labour allowance had been computed by adding production bonus, overtime, attendance allowance etc. to the daily labour salary and the Board had reimbursed Rs.2,540,470 for 13 officers in the years 2015. However, approval of the Line Ministry and the Treasury had not been obtained for this purpose and action in accordance with the instructions given at meeting of the Committee on Public Enterprises held on 19 November 2014 had not been taken even up to 30 June 2016.
- (b) Action had not been taken to obtain the approval of the Treasury in connection with the privileges such as leave, quarters and non-recovery of charges for water and electricity consumption which had been granted by the Board to the staff superseding the relevant circulars and the other similar institutions.
- (c) As the machines imported by the Institute in the year 1982 by incurring a sum of Rs. 4,142,173 for processing tea, had not been suitable for the relevant project, the machines remained idle. Despite being informed that action would be taken to write off this value from the books on the approval of the Treasury, the said value had not so far been removed from the accounts, and shown as work in progress instead.

6. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a.) Control of Assets	Failure to revalue the assets fully depreciated.
(b.) Administration of the Factory Operations	The decline in the production of the St. Joachim factory, and sustaining losses continuously.
(c.) Budgetary Control	Observation of significant variations between the budgeted and actual expenditure.
(d.) Accounting	Failure to present accounts on the due date.