

Sri Lanka Tea Board - 2011

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 2011 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 Accounting Deficiencies

Following observations are made.

- (a) Two motor vehicles valued at Rs. 4,950,000 received as Government Grants had been shown under current liabilities instead of showing separately as government grants in the balance sheet.
- (b) Contribution of Employees Provident Fund payable for the month of December 2011 amounting to Rs. 1,350,250 had not been brought to the accounts for the year under review as accrued expenses.
- (c) Contribution of Employees Trust Fund paid for the month of December 2011 amounting to Rs. 72,495 had been debited to the Employees Provident Fund account instead of being debited to the Employees Trust Fund account.
- (d) Although a sum of Rs. 50.337 million had been credited to the Consolidated Fund as surplus funds of the Board, Rs. 50 million only had been debited to the Capital account and the balance had been debited to the interest on investment account. Therefore the capital account had been overstated by Rs.337,000 and the interest on investment account had been under stated by the same amount during the year under review.

- (e) According to the confirmation received from Bank of Ceylon the balance of the State Institutions Temporary Surplus Trust Fund as at 31 December 2011 was Rs.301,257,161, whereas, according to the balance sheet, it was Rs.298,888,579. It was observed that the difference of Rs. 2,368,582 was the interest received from the bank although it had been taken as receivable as at the end of the year under review.
- (f) Settlement of creditors amounting to Rs. 83,167 had been erroneously debited to expenditure on promotional levy account. Therefore the creditors account and expenditure on promotional levy account had been overstated by Rs. 83,167.
- (g) License fees amounting to Rs. 2,044,508 received to the Regional Offices of the Board during the year under review had not been taken into the income.

1.2.2 Unreconciled Accounts

Following observations are made.

- (a) A difference of Rs.13,238 had been observed between the cash book balances shown in five bank reconciliation statements and the balances shown in the related cash books as at 31 December 2011.
- (b) A difference of Rs.155,130 had been observed between the United Arab Emirates (UAE) Embassy current account and the confirmations of the Consulate General of Sri Lanka in UAE as at 31 December 2011.

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 had not been recovered even up to the end of the year under review. However, a provision had been made for that amount under bad and doubtful debts as the recovery was doubtful.

- (b) A sum of Rs. 22,465,416 had been receivable from Kalubowitiyana Cut Tear and Curl (CTC) Tea Factory for more than 15 years which was given as a loan for the development of the factory for the production of CTC tea. However, no any agreement had been entered into between both parties regarding the settlement of this loan.
- (c) A subsidy of Rs. 4,329,769 granted to Polhena Tea Factory in 1995 for the development activities had not been utilized for the intended purpose and hence the Board accounted that amount as a receivable from the Factory. This amount had not been recovered up to the end of 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., were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Government Financial Regulations	
- No. 454	Any inventory book had not been properly maintained as per the Regulation.
- No. 757(2)	According to the Boards of Survey Reports for 2010, excess and shortages compared with the book balances, were not included in the verification reports as per the Regulation.

(b) (i) Treasury Circular
No.842 of 12 December 1978

The register of fixed assets had not been up dated and maintained properly as per instruction in this circular.

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 2011 had resulted in a net surplus of Rs. 17,851,102 as against the net deficit of Rs.24,502,265 for the preceding year, thus indicating an improvement of Rs.42,353,367 in the financial results. This increase was mainly due to the increase of license fees, registration and renewal fees and permit fees of the Board for the year under review.

2:1:1 Analytical Financial Review

- (a) Cess income had decreased by Rs. 70,000,000 as compared with the previous year.
- (b) Expenditure for Development activities had increased by Rs. 18,739,663 as compared with the previous year.

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. Performance of the activities of those divisions for the year under review could not be ascertained, as details of physical progress had not been prepared properly.

2:2:2 Performance of Tea Industry

(a) Tea Production and Export from Sri Lanka

According to the Financial Statements and the data made available to audit, tea Production and Export from Sri Lanka and the expenses incurred by the Board for the improvement of tea production and tea export promotion are given below.

Year	Tea Production of Sri Lanka	Development Expenditure incurred by the Tea Board for the Improvement of Tea Production	Tea Exports of Sri Lanka (Including Re-exports)	Promotional Expenditure incurred by the Board for increasing Tea Exports	Cost of Production per Kilograms	Selling Price per Kilograms
	Kilograms (Million)	Rs.	Kilograms (Millions)	Rs.	Rs.	Rs.
2007	304.6	23,725,332	309.9	92,815,993	210.75	279.52
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	314.17	370.61
2011	328.6	29,133,757	322.6	25,755,657	350.00	359.89

(Estimated)

Following observations are made in this regard.

- (i) Although tea development expenditure had increased by Rs. 18.74 million the tea production in Sri Lanka had decreased by 2.8 million kilograms as compared with the previous year.
- (ii) Tea exports also had decreased by 1.8 million kilograms as compared with the previous year.
- (iii) Balances retained in the Embassy accounts in Poland, Germany, Canada and Bangkok were Rs. 588,679 after conducting tea promotional activities in previous years. The Board had not taken actions to continue to conduct any promotional activity during the year utilizing these funds or withdraw the balances from the respective Embassies.

(b) Participation of Foreign Trade Fairs

The foreign trade promotion works under taken by the Board and sponsorships provided during each year from 2008 in connection with the promotion of Pure Ceylon Tea Brands at the International Food and Beverages held in the major tea importing countries are given below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Number of Exhibitions conducted by the Board	15	18	25	35
Number of Companies participated	94	101	81	89

(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 2008 are given below.

<u>Registrations and issue of License .</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Greenleaf Traders	1914	1866	1703	1976
Active Tea Factories	695	712	697	669
Tea Exporters	217	347	325	295
Tea Packers	392	375	351	231
Importers	164	57	51	171
Tea Warehouses	406	359	229	295
Trade Names (Lion Logo)	451	96	94	83

(Annual Reports 2008 – 2011)

(d) Activities of the Tea Tasting Unit

The sample tea tastings carried out each year by the tea tasting unit to maintain the minimum quality standard/ monitoring ISO 3720 at any given point of disposal of tea and issue of Lion Logo Certificate for Branded products for consumer packs are given below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tea Tasting for Quality Control			
- Pre auction	151,767	164,336	130,007
- Pre shipment	4,981	6,183	6,620
- Pre Import	4,615	6,404	5,552
- Post import	3,068	2,761	2,597
Ratification of Private sale panel valuation certificate	5,255	5,025	11,523
Ratification of Direct Sales	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.
2011	7,933	6,071,200
2010	7,025	4,171,600
2009	7,679	3,787,900
2008	8,741	867,375

(Annual Reports 2008 – 2010 and Draft Annual Report 2011)

Following observations are made in this regard.

- (i) 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 on the basis of payment of 50 per cent of the net income of the Laboratory.
- (ii) It was observed in audit that approvals had been granted for export made teas which were rejected by the Laboratory as those were

below the minimum quality standard in four instances. The quantity and the value of the total stock were 41,131 kgs and Rs. 15,410,285 respectively.

(iii) It was observed in audit that a stock of made tea to be exported by an exporter valued at Rs.3,238,302 had been rejected by the Laboratory on 09 August 2011 as those were not suitable for human consumption. However, this stock had not been denatured by the Board up to the date of audit on 30 September 2012.

(iv) Although the Board had purchased Pesticide Residue Analysis equipment during the year 2010 for Rs.55,526,585, it was observed in audit that no such analysis had been conducted by the Board up to the date of audit on 30 September 2012 and the equipment were still under test run.

2:3 Identified Losses

Following amounts had been written off against the profit as losses.

- (a) Security deposits receivable aggregating Rs. 156,100 due to non availability of the related documents.
- (b) A receivable rent deposit for a residence provided in Moscow in 1996 for tea promotion officers amounting to Rs.314,720 had been written off due to non availability of related documents.
- (c) A rent deposit amounting to Rs. 359,680 paid in 1993 for the tea promotion office in Moscow had not been recovered as the residence had not been vacated on due dates.
- (d) A loss amounting to Rs.1,210,000 from the disposal of the vehicle which had been brought back from the tea promotion unit in Japan when it was closed down in 2008. Further a sum of Rs.3,461,884 had been set off against the revaluation surplus in previous year accounts as revaluation loss.

2:4 Cadre position

According to the cost of personnel reports submitted by the Board the cadre position of the Board as at 31 December 2011 is given below.

Post	Approved Cadre	Actual Cadre	Vacancies	Redundant posts
Senior Level	04	05	-	01
Secondary Level	27	20	10	03
Tertiary Levels	193	151	48	06
Primary Level	76	67	09	-
Total	300	243	67	10

- (i) According to the Management Services letter No.DMS/D/2/02/62 dated 01 December 2011, 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.
- (ii) There were 67 vacancies as at 31 December 2011 including Deputy/Asst. Director(IT), Senior Accountant, Deputy and Asst.Tea Commissioners, Legal Officer, Technical Assistants (Lab) etc. It was observed in audit that Technological officers Association of the Board had filed a case in the Supreme Court against the Board on 24 November 2011 regarding the violation of fundamental rights of Tea Inspectors / assistants by new scheme of Recruitment. However, the case was pending as at 31 July 2012.

2:5 Assets Management

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 not been recovered by the Board even up to the end of the year under review. However it was observed in audit that an arbitrator had been appointed for this purpose and a sum of Rs. 2.8 million had been spent since 2005 to 30 May 2011 in this connection. Although the arbitration proceedings had been

completed after a lapse of 4 years in 2009 and according to the decision a sum of Rs.1.8 million excluding the damages and repairs to the building to be received to the Board. Meanwhile the owner of the premises had appointed another arbitrator against the Board in October 2008 by claiming Rs.4.9 million for the damages to the building and failure to restore the area of the building to be leased from January to September 2003. The decision is still pending.

- (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 Sri Lanka Tea Board. Although 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 this activity had been shown in the accounts as Work in Progress without completing even up to 30 July 2012.

2:6 Levy for Tea Promotion and Marketing Strategy

A sum of Rs.1,308.09 million had been collected for Tea Promotion and Marketing Strategy during the period from 01 November 2010 to 31 December 2011 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) Although the main objective of the 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. 66.44 million as interest.
- (b) In the absence of a proper plan and management ,a sum of Rs. 25.75 million or 1.87 per cent of such collection had only been used up to the year 2011 on promotion and marketing activities.

- (c) It was observed in audit that promotion and marketing activities had decreased by Rs. 33.08 million or 56.23 per cent as compared with the previous year.
- (d) Although a sum of Rs. 1,150 million budgetary provisions had been made for promotion and marketing activities for the year under review, Rs. 25.75 million or 2.2 per cent only had been utilized during the year under review.
- (e) According to the paragraph 04 of the gazette notification, the collected sum shall be determined by the part of the Capital Fund of the Board. However according the Financial Statements, the balance levy amounting to Rs.1,348.78 million had been shown under the current liabilities.
- (f) A sum of Rs.2,132,243 (US\$ 19,000) had been paid from the levy to purchase Euro Monitor International package covering market intelligence aspect under the “ Passport Hot Drinks (Tea)” constituting 80 countries for a period of one year from 15 December 2010 to 14 December 2011 . However, it was observed in audit that no specific approval had been obtained from the Board of Directors for the above payment from the Levy fund.
- (g) A sum of Rs. 86,238 had been paid to a private company during the year under review for printing a poster to distribute among the customers in and out of the island as promotion and marketing activity. However it was observed in audit that the appearance of the poster was not in a proper condition with regard to tea marketing.

3. Budgetary Control

Significant variances were observed between the budget and the actual thus indicating that the budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

Observations made in systems and controls during the course of audit were brought to the notice of the Chairman 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 of control

- (a) Inventory
- (b) Accounting
- (c) Receivables and payables
- (d) Promotional activities