

Tea Small Holdings Development Authority - 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 Tea Small Holdings Development Authority 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 Sri Lanka Accounting Standards (SLAS)

Fully depreciated vehicles purchased at the cost of Rs.29,264,400 which are being used at present at Head Office, Galle, Matara, Rathnapura, N'Eliya, Uva and Kalutara Regional Offices had not been revalued and brought to accounts in terms of SLAS No. 18.

1:2:2 Accounting Deficiencies

Following accounting deficiencies were observed in audit

- (a) The value of stocks amounting to Rs.277, 674 as at end of the year under review at Uva, Kaluthara, N'Eliya, Matara, Rathnapura and Galle Regional Offices had been taken into accounts based on the book value without considering the damaged, expired and unusable items and shortages remained in the stores.
- (b) A Motor bicycle and a computer at N'Eliya Regional Office valued at Rs. 388,420 received by the Authority as grants from the International Fund for Agriculture Development Programme (IFARD) had erroneously been shown as payables instead of being shown as grants.
- (c) Although interests amounting to Rs. 587,780 had been taken into accounts as receivables from fixed deposits and call deposits as at 31 December 2011, it had been received during the year under review as compared with the bank confirmations.

1:2:3 Unreconciled Balances

Following observations are made.

- (a) A difference of Rs.160,909 had been observed between the cash book balances shown in the bank reconciliation statements and the balances shown in the cash books as at 31 December 2011.
- (b) According to the schedules, value of debtors amounting to Rs.75,213,449 receivable from Tea Shakthi Fund as at 31 December 2011, whereas as per the accounts of Tea Shakthi Fund it was Rs. 74,048,540 .The difference of Rs. 1,164,913 observed between the above two accounts had not been reconciled during the year under review.

1:2:4 Accounts Receivable and Payable

- (a) Debtors (Head Office) amounting to Rs.81, 139,404 were remained unrecovered for over 5 years.
The Chairman of the Authority had stated in his reply that the approval of the General Treasury had not been received yet to write off the balance receivable amounting to Rs. 75,213,449 from Tea Shakthi Fund and legal action had been taken for the amount receivable from debtors amounting to Rs.5,916,590.
- (b) Debtors and creditors (Regional Offices) aggregating to Rs. 4,514,317 and Rs.430,557 respectively were remained unrecovered/ unsettled for over 5 years.
- (c) An advance amounting to Rs. 12,968,728 given for the construction of Hanthana Training Centre had not been recovered for over a long period.
The Chairman of the Authority had stated in his reply that he was expecting the approval of the General Treasury to write off the advance from the books of accounts.
- (d) Re-scheduled Vehicle Loans amounting to Rs. 9,166,678 had been carried forward for over 05 years without being recovered.

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decisions	Non Compliance
(a) Government Financial Regulations	
(i) F.R.104(2) and F.R.110	Losses had not been reported to the Auditor General in terms of the Regulations and a separate register had not been maintained for reporting those losses by the Authority.
(ii) F.R.1645 and F.R.1646	Daily running charts and monthly performance summaries had not been furnished to the Auditor General in respect of 26 vehicles of the Authority as per Regulations.
(c) <u>Treasury Circulars</u>	
(i) No.842 of 12 December 1978	A Fixed assets register had not been properly maintained as required by the Circular instructions.
(ii) No.IAI /2002/02 of 28 November 2002	A fixed assets register relating to computer accessories and software had not been maintained in accordance with the Circular instructions.

2. **Financial Review**

2:1 Financial Results

According to the financial statements presented, the operating activities of the Authority for the year ended 31 December 2011 had resulted in a net deficit of Rs.12.7 million as compared with the corresponding net deficit of Rs.4.5 million for the preceding year, thus indicating a further deterioration of Rs.8.3 million in the financial results. This was mainly due to increase of the development expenses and salaries by Rs.18.8 million and Rs.10.0 million respectively.

2:2 Accumulated Fund of the Authority

According to the information made available, the Authority did not have an initial capital and all grants received as at 31 December 2011 amounting to Rs. 212,472,868 from the General Treasury and other Projects had been shown as accumulated fund in the financial statements.

3. Performance Review

3:1 Tea Small Holders' Contribution to Tea Production

According to the information made available for audit, the whole tea production in Sri Lanka during the year under review was 328.37 million kilograms and the Tea Small Holders' Contribution thereto was 229.94 million kilograms or 70%. The whole tea production in Sri Lanka during the preceding year was 331.4 million kilograms and the Tea Small Holders' Contribution thereto was 230.13 million kilograms or 69.44%. Thereby the contribution of the Authority had increased by 0.56% for the year under review.

3:2 Tea Plantation Developments

According to the Financial Statements presented, a sum of Rs. 208 million had been spent for subsidies, extension and social development activities during the year under review.

The Plantation Development Cost and the cost of implementation per one rupee of Development Cost for the year under review and for the preceding four years are given below.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Development Cost Rs. million	183.8	208.3	185.7	189.2	208.0
Implementation cost Rs. million	179.0	188.7	202.1	205.4	218.5
Implementation Cost per Re.1 of Development Cost	Re. 0.97	0.91	1.08	1.08	1.04

Following observations are made in this regard.

(a) Tea planting under subsidy schemes

(i) According to the National Policy 2,200 hectares are to be replanted annually to get maximum yield and to sustain tea lands. However, according to the Authority, only 772 hectares had been replanted during the year under review.

(ii) Tea new planting had been restarted from the year 2010 in Kegalle and Kalutara Districts and it had been completed in 56.76 % of the targeted area and a sum of Rs.1.186 million or 47.44 % had been paid as subsidy out of the allocation of Rs.2.5million.

(b) Extension and Advisory Services.

(i) According to the Authority, the staff of the extension services had conducted 26,103 individual extension services and 6,970 group programmes during the year under review and it was a decrease of 4.5% and 2.57% respectively as compared with the previous year.

(ii) 175,849 farmers were participated in the extension and advisory services during the year under review and it had decreased by 16.39% as compared with the previous year.

(iii) According to the decisions taken in respect of extension services, the ratio of an extension officer to farmers should be 1:1,000. However, according to the information of the Authority, the actual ratio of an extension officer to farmers was 1:2,650. Therefore, it is appears that less attention had been given individually and the vacancies of tea extension officers as at the end of the year were 16.

(iv) According to the information of the Authority, 5,275 training programmes had been conducted during the year under review and it was an 80 per cent progress of the targeted training programmes.

(c) Institutional Plant Nurseries

Following observations are made.

(i) According to the financial statements, the operations of 06 plant nurseries had resulted in a profit of Rs 870,639 during the year under review as compared with the profit of Rs.236,206 for the preceding year, thus indicating an improvement of operating results by Rs. 634,433.

- (ii) The Tispane nursery had occurred losses of Rs. 64,054 and Rs. 725,541 during the year under review and previous years respectively.
- (iii) In 06 nurseries of the Authority 158,535 plants were dead during the year under review and it was 24% of the total plants. The dead plants of Rahathungoda, Hantana and Tispane Nurseries were abnormally increased during the year and the percentage of increase were 30%, 27% and 21% respectively and the Chairman of the Authority had stated in his reply that the main reason for that was bad weather.
- (d) Registration of Commercial Plant Nurseries
- Following observations are made.
- (i) According to the information of the Authority, 663 nurseries had been registered by the Regional offices of the Authority during the year under review. Out of that only 31 nurseries were recommended for the suitability for selling plants.
- (ii) Although the Kalutara Regional Office had registered 37 nurseries, the inspection activities (which should be done before selling plants) had not been completed as at the end of the year under review.
- (iii) Out of the total registered nurseries in Matara and Kegalle Regional Offices had completed only 4.2 per cent and 6.3 per cent inspection activities respectively.
- (iv) No registration activities had been made by N'Eliya Regional Office during the year under review.
- (e) Distribution of Tea Fertilizer
- According to the tea fertilizer distribution account, the quantity of fertilizer given to Tea Small Holders during the year under review was 67,735 kilograms and it had decreased by 292,473 kilograms or 81% as compared with the previous year. The profit/loss of the tea fertilizer distribution centres as compared with the previous year are given below.

Fertilizer Centre -----	Net profit / (loss) for the year -----		Increase/(decrease) -----
	2011 Rs.	2010 Rs.	
Sarasaviuyana	(174,121)	5,131	(179,258)
Poramadulla	(132,161)	7,803	(139,964)
Hingulla	(269,247)	13,235	(282,482)
Gampola	134,044	(190,017)	324,060
Ginigaththena	-	(62,427)	(62,427)
Bandarawela	(2,219)	64,444	(66,663)

According to the Chairman's comments, these fertilizer centres are not functioned after the establishment of National Fertilizer Scheme.

3:3 Identified Losses

Following observations are made.

- (i) 6,525 kgs of fertilizer stock at Hingula Fertilizer Centre of Kegalle Regional Office had been damaged and destroyed during the year under review.
- (ii) A sum of Rs. 7,045 had been paid during the year under review as penalties due to the delays in renewal of registration of vehicles.

3:4 Assets Management

Following observations are made.

- (i) In an audit inspection carried out during the year under review it was observed that the circuit bungalow at Walahanduwa Estate was idling for over 10 years without being used. Furthermore, fertilizer stores and water tank belonging to Walahanduwa Estate had also been idling for more than five years.
- (ii) Three staff quarters at Walahanduwa Estate had been encroached by external parties for a long period.

3:5 Assets utilized by other Institutions

Following observations are made.

- (i) A vehicle had been released to the line Ministry from 11 August 2011 contrary to the Paragraph 8:3:9 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

- (ii) A building valued at Rs. 800,000 had been donated by the Integrated Rural Development Project for Kegalle Regional Office in 1992. However, this building had been taken over and utilized for the office of the Minister of Agriculture of Sabaragamuwa Provincial Council since 1993 without paying any rental.

3:6 Human Resource Management

Particulars of the approved and actual cadre of the Authority as at 31 December 2011 are given below.

Designation	Approved Cadre	Actual Cadre	Vacancies	Redundant Posts Nos
-----	Nos	Nos	Nos	-----
---	-----	-----	-----	-----
-----	-----	-----	-----	-----
Executive				
- Senior level	03	02	01	-
- Middle level	36	19	17	-
- Junior level	44	33	11	-
Secondary Level	166	147	19	-
Tertiary level	127	168	-	41
Primary level	46	55	-	9
	-----	-----	-----	-----
Total	422	424	48	50
	=====	=====	=====	=====

Following observations are made in this regard.

- (i) There were 48 vacancies including executive grades and 50 redundant staff in the non executive grades and minor employees as at 31 December 2011. However as per the Management Services Letter No.DMS/E4/08/5/070/1 dated 29 June 2010, further 55 numbers of Management Assistants and 13 numbers of labourers had been approved as personal to them as they were in the service at the time.

(ii) Three Regional Managers and 11 Assistant Regional Managers for Extension, Planning and Development were vacant as at the end of the year under review.

According to the Chairman's comments, recruitments of Regional Managers and Assistant Regional Managers had been stopped temporary due to the disputes of the promotion of service and the court case for the recruitment of the posts of Assistant Regional Managers for Extension, Planning and Development.

4. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Authority 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) Receivables and Payables
- (b) Stocks
- (c) Bank Reconciliations
- (d) Payment of Subsidies
- (e) Utilization of Vehicles