

## **Sri Lanka Tea Board - 2010**

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### **1. Financial Statements**

#### **1:1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Tea Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Sri Lanka Tea Board as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### **1.2 Comments on Financial Statements**

##### **1:2:1 Accounting Deficiencies**

Following observations are made.

- (a) The cash flow statement had not been prepared properly in terms of Sri Lanka Accounting Standard No. 09. Some of the figures in the cash flow statement could not be reconciled with those figures shown in the balance sheet as at 31 December 2010 and the operating accounts for the year under review.
- (b) Following assets and liabilities had been set off each other without being shown separately in the accounts.
  - (i) A credit balance in cash and bank balances relating to United Arab Emirates amounted to Rs.746,760.
  - (ii) A debit balance in VAT Control account amounted to Rs. 54,534.
- (c) A sum of Rs. 648,302 incurred by the Board as drivers salaries and repairs to the vehicle who had been released to the line Ministry with a vehicle from 25 June 2008 to 03 November 2009 had not been shown as receivables in the accounts.

### 1:2:2 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 for bad and doubtful debts had been made for the same amount as the recovery of which is 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 without recovering any interest which was given as a loan for developing the factory for the production of CTC tea. However, no any agreement had been entered between both parties to settle this loan.
- (c) A sum of Rs. 4,329,769 had to be recovered from Polhena Tea Factory as the factory had not fulfilled the conditions of the subsidy given by the Tea Board in 1995.
- (d) The Board had purchased 916,995 kgs of tea from Colombo Tea Auction held on 28 October 2008 for a total value of Rs. 231,428,831 due to the adverse market condition of local tea industry under the conditions of Colombo Tea Auction and buyers should settle payments for purchase in total by 7th day following the sales date. However, an amount of Rs. 1,126,520 had been outstanding up to the date of audit on 30 June 2011 and no action had been taken to recover the amount due.
- (e) Deposits totaling Rs. 211,100 relating to electricity, rent, fuel, postage, gas etc. remained in the accounts for a long period without being recovered from relevant parties.

### 1: 2:3 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
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<p>(a) <u>Inland Revenue Act No. 10 of 2006</u></p> <p>- Section 132</p>	<p>The PAYE Tax in respect of the year under review and prior years had not been recovered from the employees concerned and remitted to the Commissioner General of Inland Revenue.</p>
<p>(b) <u>Government Financial Regulations</u></p> <p>- No. 104(2)</p> <p>- No. 757(2)</p>	<p>Eight vehicle accidents were occurred during the year under review and Rs. 281,107 had been paid for repairs of those vehicles. However those accidents had not been reported to the Auditor General according to the Regulation.</p> <p>The book balances, excesses, shortages or losses were not included in the verification reports for the year under review as per the regulation.</p>
<p>(c) <u>Public Enterprises Circular No. PED/12 of 02 June 2003.</u></p> <p>- Paragraph 6:5:1</p> <p>- Paragraph 5:2:1</p> <p>- Paragraph 5:1:2</p>	<p>The draft annual report had not been presented to the auditor General even up to 30 June 2011.</p> <p>The Board had not prepared budgeted balance sheet, statement of income and expenditure and cash flow statement for the year under review as required.</p> <p>The Board had not prepared an action plan clearly identifying the responsibilities of the managers with goals and targets to be achieved during the planned period and the performance indicators for the Corporate Plan.</p>

## 2. **Financial and Operating Review**

### 2:1 Financial Results

According to the financial statements presented, the operating activities of the Board for the year ended 31 December 2010 had resulted in a net deficit of Rs. 29,786,206 as compared with the corresponding net deficit of Rs.86,669,272 for the preceding year, thus indicating an improvement of Rs.56,883,066 in the financial results. This improvement had occurred mainly due to decrease of development and Promotional expenditure during the year under review.

#### 2:1:1 Analytical Financial Review

- (a) Cess income had decreased by Rs. 62,400,000 as compared with the previous year.
- (b) Other income had increased by Rs. 33,308,328 due to the increase of the rates of dealers' license fees, license fees for produce brokers, refuse tea registration fees, renewal fee of tea exports, issue of permits for importation of tea, factory registration fees and analytical charges.
- (c) Personal emoluments had decreased by Rs. 21,123,333 as compared with the previous year. This was mainly due to the closure of Poland Branch by the end of the previous year.

#### 2:1:2 Collection of Cess

- (a) Cess is imposed on all tea exported from Sri Lanka with a view to financing research, fiscal, regulatory, marketing development and promotional activities undertaken in the tea sector. The Cess fixed at Rs. 2.00 per kilogram had been increased to Rs. 2.50 with effect from April 1997. The Cess had been further increased to Rs.4.00 per kilogram with effect from 18 April 2006. The respective Gazette Notification had been published with the approval of the Honorable Minister of Plantation Industries in Gazette Extraordinary No.1441/03 dated 17 April 2006.

It was observed in audit that the establishment and operation of the Cess Fund had not been made in compliance with the provisions in Sections 13 and 14 of the Sri Lanka Tea Board Act, No. 14 of 1975 which is the only statute in operation with regard to the Cess Fund.

- (b) A sum of Rs. 192.0 million had been received to the Sri Lanka Tea Board from the Treasury for the operation of regulatory, promotion and other supporting activities which is 16 per cent of the total Cess collected by Sri Lanka Customs during the year under review.
- (c) Cess income received for the year under review had decreased by Rs.62.4 million or 24.5 per cent as compared with the previous year.

## 2:2 Identified Losses

Following losses were observed in audit.

- (a) Security deposits amounting to Rs. 40,340 had been charged against the profit as those deposits were lying in the account for more than 20 years.
- (b) Staff loans totaling Rs. 219,814 receivable from five employees had been charged against the profit due to the death , vacation of post etc.

## 2.3 Performance Review

### 2:3:1 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 abroad, market research on tea and provide market intelligence to the tea industry, 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. According to the progress reports presented to the Ministry of Plantation Industries for the year under review, the financial and physical progress of some of the activities were given below.

<b>Project/Programme</b> -----	<b>Progress as at 31 December 2010</b>	
	<b>As a percentage</b>	
	Financial Progress	Physical Progress
	-----	-----
	%	%
Installation of quality systems in Tea Factories	80	10
Subsidy scheme for Factory Modernization and Replanting	98	21
International Trade Fairs	33	16
Uni National Promotions	35	8
Local Promotions	43	12
Building and structures	100	6
Plant and Machinery	47	5
Furniture and equipment	50	12

According to the above information, significant deviations between financial and physical Progress were observed in audit.

### 2:3:2 Tea production in Sri Lanka

According to the statistics furnished by the Board, a classification of the tea production for the years 2008 to 2010 are given below.

<u>Elevation</u>	<u>Tea Production (Metric Tons)</u>			<u>Percentage of</u> <u>increase/(decrease)</u> <u>as compared to 2008</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	
High Grown	78,388	72,480	83,662	(6.3)
Mid Grown	54,060	43,313	47,024	14.9
Low Grown	<u>195,668</u>	<u>173,033</u>	<u>184,691</u>	<u>5.9</u>
	328,116	288,826	315,377	4.0
Green Tea Production	<u>3,310</u>	<u>2,305</u>	<u>3,039</u>	<u>8.9</u>
Total Tea Production	331,426	291,131	318,416	4.0
	=====	=====	=====	=====

Tea production in Sri Lanka had increased by 40295 metric tons or 21 per cent as compared with previous year.

### 2:3:3 Tea Export from Sri Lanka

According to the statistics made available for audit the tea exported from Sri Lanka for the years 2008 to 2010 are given below.

<u>Category</u>	<u>Tea Export (Million kilograms)</u>			<u>Percentage of</u> <u>increase/(decrease) as</u> <u>compared to 2008</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	
Bulk Tea	161.1	164.5	178.0	(9.5)
Tea packets	82.0	75.5	84.3	(2.6)
Tea bags	23.1	18.7	20.3	13.8
Instant Tea	1.3	1.4	1.3	-
Green Tea	5.0	3.9	3.9	28.2
Other Tea	26.0	15.9	13.4	94.0
Total	298.5	289.9	301.2	(0.9)
	=====	=====	=====	=====

The quantity of tea exported from Sri Lanka had increased by 18.6 MKgs or 7.0 per cent as compared with previous year. The exported quantity of bulk tea had decreased when compared with last year. As compared with the year 2008, the exported quantity of the year under review had decreased by 0.9 per cent.

2:3:4 Expenditure incurred for Tea Researches, Developments and Promotional activities

According to the financial statements, the expenditure incurred by the Board for the Tea Development Activities, Promotional activities and Researches and Developments for the years 2008 to 2010 are given below.

Year	Development Activities Rs.	Promotional Activities Rs.	Researches and Developments Rs.	Total Rs.
2008	3,644,246	109,358,718	1,829,850	114,832,814
2009	24,552,506	102,286,182	2,003,148	128,841,836
2010	10,394,094	58,843,391	2,551,662	71,789,147
	38,590,846	270,488,291	6,384,660	315,463,797

Following observations are made in this regard.

- Expenditure incurred for Development Activities, Tea Researches and Developments and Promotional activities had decreased by Rs. 57,052,689 as compared with previous year.
- Out of 244 factories applied for factory modernization subsidies, 13 factories only had been granted subsidies totaling Rs.8,820,997 during the year under review. Therefore delays were observed for granting subsidies.  
Subsidies totaling Rs. 1,000,000 granted to a factory which had violated the conditions of the subsidy scheme and had installed machinery in 2009 without prior approval from the Board. However the factory had repaid Rs.750,000 out of the subsidies of Rs.1,000,000 up to 30 June 2011.
- International Trade fair expenses and Uni National Promotional Activities had decreased by Rs.40,384,109 as compared with the previous year.

2:4 Human Resource Management

According to the reports relating to cost of personnel submitted by the Board, the cadre position of the Board as at 31 December 2010 is given below.

Grade -----	Approved Cadre -----	Actual Cadre -----	Vacancies -----
Executive Grades	72	57	15
Clerical and Other Grades	137	113	24
Miner Grades	<u>74</u>	<u>68</u>	<u>06</u>
Total	283	238	45
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Following observations are made in this regard.

- (a) An approved organizational chart and a cadre were not made available in the Board in accordance with the Section 9:2:(b) of Public Enterprises Circular No. PED/12 of 02 June 2003. However the cadre position of the Board is consisting of 250 employees approved by the Cabinet of Ministers and 33 employees approved by the Department of Management Services under unemployed Graduate Scheme.
- (b) Proper scheme of recruitment and promotion were not followed by the Board as prescribed by Section 9:3:1 of the Circular.
- (c) 45 vacancies in the cadre had not been filled up to the end of the year under review including the post of Chief Internal Auditor which was vacant since June 2007.
- (d) Although a sum of Rs.680,000 had been paid to the Sri Lanka Institute of Development Administration for formulation of a new scheme of recruitment for personnel and revision of cadre in 2007, the formulation of new recruitment and promotion scheme and restructuring of cadre in accordance with Management Services Circular No. 30 of 22 September 2006 had not been implemented so far.
- (e) It was observed that adequate internal audit staff had not been appointed /attached by the Board for the year under review for carrying out internal audit functions effectively.



## 2:5 Staff Housing Loans Scheme

The following matters were observed at an examination of the Staff Housing Loans Scheme implemented by the Board in collaboration with the State Mortgage and Investment Bank (SMIB).

- (a) Treasury approval had not been obtained for the implementation of the Staff Housing Loan Scheme up to 31 May 2011. It was observed in audit that high rate of interests had been paid by the Board for some housing loans in 2009 and 2010 on behalf of the employees.
- (b) According to the confirmation received from State Mortgage and Investment Bank the balance of the investment as at 31 December 2010 was Rs. 16,142,969, whereas, according to the balance sheet, it was Rs.13,377,908. The difference of Rs. 2,824,557 had been shown in the accounts as interest receivable although it had been received as per bank confirmation.
- (c) Although the funds of the Board had been utilized for granting of loans, adequate records relating to old loans including the loan register had not been properly maintained by the Board. Therefore, it was not possible to satisfy in audit whether the total investment had been utilized for granting loans and the loans had been properly recovered.
- (d) It was observed in audit that total loan balance amounting to Rs.9,592,293 and deposit balance amounting to Rs. 6,550,549 as at 31 December 2010 had been unnecessarily retained at the Bank under low interest rate.

## 2:6 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 deposit of Rs. 2,400,000 placed with the owner of the premises had not been recovered 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. 2,134,514 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.1,816,214 excluding the damages and repairs to the building to be received to the Board. But the owner of the premises had filed a case against the decision of the arbitrator in the high court and appointed a new arbitrator for this purpose in October 2008. The matter is still in 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 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 completed even up to 31 December 2010. Further the liquidated damages had not been recovered in terms of Section 5 of Appendix 3 of the Agreement.
- (c) An amount totalling Rs. 317,231 had been idling in current accounts of Canada and Bangkok Embassies from the beginning of the year under review.

## 2:7 Investments

Following observations are made.

- (a) Out of the investments of Gratuity provision and Green Leaf Dealer Deposits amounting to Rs.60,358,186, a sum of Rs.24,143,274 (40% of the investment) had been remitted to the Consolidated Fund during 2010 as surplus fund of the Board in terms of Cabinet decision on 28 September 2010. However it was observed that those investments were not surplus funds and should be available on call to the Board when requested by the Green Leaf suppliers and gratuity requirements. The funds which had remitted to the Consolidated Fund had been shown under the investments in the financial statements.
- (b) Although the interest received amounting to Rs.902,719 for the year under review from the six months fixed deposit of BOC London, a loss of Rs.3,896,073 had been charged against the profit during the year under review due to the declining of exchange rates of sterling pounds.

2:8 Levy for Tea Promotion and Marketing Strategy

A total sum of Rs.194,275,470 had been collected for the year 2010 from 01 November 2010 by the Board from tea exporters (Rs.3.50 per every kilogram) on each tea export as a collection of levy for Tea Promotion and Marketing Strategy as per the Gazette notification published on 27 October 2010. The purpose of this collection is engaging in activities related to Tea Promotion and Marketing Strategy within and outside of Sri Lanka. However none of the activities had been conducted up to 30 June 2011 although the total collection was Rs.524,958,409. According to the paragraph 04 of the Gazette notification, the collected sum shall be determined as a part of the Capital Fund of the Board. However according the Financial Statements the Levy had been shown under the current liabilities as a Deposit on Tea Promotion and Marketing Levy.

2:9 Budgetary Control

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

3. 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 from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed assets
- (b) Accounting
- (c) Receivables and payables
- (d) Subsidy Payments
- (e) Staff loans