

Janatha Estates Development Board - 2012

1. Financial Statements

1:1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.2.7 of this report. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1:2 Comments on Financial Statements

1:2:1 Going Concern of the Board

The net assets of the Board had decreased to Rs.252,874,366 as at 31 December 2012 due to 16 estates out of 17 estates of the Board incurring losses on a continuous basis. The decrease in the net assets as compared with the preceding year had been 45 per cent and in such situation an uncertainty exists with regard to the going concern of the Board without the Treasury or other Governmental financial assistance.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) An under provision of Rs.72,041,092 had been made for 04 items due to the computation of depreciation made without applying the specific depreciation policy and the rates.
- (b) A sum of Rs.6,013,927 had been shown in the financial statements as fixed assets of the Onugaloya Estate which is outside the control of the Janatha Estates Development Board.
- (c) Even though the lease rent according to the lease agreement amounted to Rs.7,140,000, only a sum of Rs.1,379,728 relevant for a year had been recognized as the income for the year under review. As the lease rent income had

been understated by a sum of Rs.5,760,272 the loss had been increased by that amount.

- (d) The expenditure on electricity recoverable for the period from the years 2009 to September 2011 from the leasing out of a part of the Head Office Building of the Janatha Estates Development Board amounted to Rs.224,063. This amount had not been shown in the final accounts as a charge recoverable.
- (e) Even though the Ledger Account on the Inter-Estates Transactions maintained for recording the transactions among the Estates should balance, a debit balance of Rs.11,344,825 existed as at 31 December 2012.

1:2:3 Unreconciled Control Accounts

A difference of Rs.48,923,381 existed between the Gratuity Provision Account and the Gratuity Computation Schedules.

1:2:4 Unexplained Differences

The following observations are made.

- (a) Even though the balance of the Fence and Security Lamps Assets Account as at 31 December 2011 amounted to Rs.602,065, the balance brought forward in the ledger on 01 January 2012 amounted to Rs.454,088.
- (b) According to the final accounts of the Board of Investment of Sri Lanka for the year 2010 the sum recoverable from the Janatha Estates Development Board had been shown as Rs.52,412,573. Nevertheless, according to the accounts of the Janatha Estates Development Board an amount payable to the Board of Investments Sri Lanka from the year 2010 had not been shown.
- (c) The balance of the Ledger Account on the liabilities under the Finance Lease Agreements with a Financial Institution as at 31 December 2012 had been a credit balance of Rs.136,160. Nevertheless, according to the files and registers of the institution the liabilities payable as at 31 December 2012 amounted to Rs.4,500,000.

1:2:5 Suspense Accounts

Action had not been taken over a long period for the settlement of the following Suspense Accounts.

- (a) The debit balances of 02 Suspense Accounts of 02 Estates totaled Rs.2,353,300 and the credit balances of 06 Suspense Accounts of 06 Estates totaled Rs.3,925,888.
- (b) A debit balance of Rs.2,735,704 existed as at 31 December 2012 in the Stock Purchase Suspense Account of the Kandaloya Estate maintained in the General Ledger from the year 2009.
- (c) A credit balance of Rs.1,158,171 existed in the Suspense Account in the Head Office Ledger.

1:2:6 Accounts Receivable and Payable

The following observations are made.

- (a) According to the financial statements, a sum of Rs.4,000,000 receivable as lease rent from the Chilaw Plantation Company had not been recovered. Nevertheless, there was no agreement between the Janawasama and the Chilaw Plantation Company for the recovery of this amount.
- (b) Action had not been taken for the recovery of the sum of Rs.555,890 remaining recoverable from the year 2006 on account of the supply of green leaf of Rahathungoda Estate to Rossling Hill Tea Factory.

1:2:7 Lack of Evidence for Audit

The following items of account in the financial statements could not be satisfactorily vouched or accepted in audit due to the unavailability of the evidence indicated against the items.

Item -----	Value -----	Evidence not made available -----
	Rs.	
(a) Non-Current Assets	2,095,927,194	(i) Schedules (ii) Register of Fixed Assets (iii) Board of Survey Reports (iv) Title Certificates
(b) Provision for Depreciation	377,872,062	Schedules of Computation
(c) Closing Stock	101,346,656	Stock Verification Reports
(d) Trade Recoverables	145,831,182	(i) Schedules (ii) Confirmation of Balances
(e) Advances, Deposits and Prepayments	22,037,639	(i) Schedules (ii) Confirmation of Balances
(f) Withholding Tax Receivable	8,997,513	Tax Certificates
(g) Sundry Debtors	342,975,525	(i) Schedules (ii) Confirmation of Balances
(h) Adjustments Account	36,289,472	(i) Journal Vouchers and Schedules (ii) Age Analysis
(i) Employees' Provident Fund/ Employees' Trust Fund/ Lanka Plantations Provident Association/ Estate Workers Provident Association	625,670,242	Schedules
(j) Provisions for Gratuity	745,185,629	Schedules
(k) Loan Balance of a State Bank	22,970,326	Confirmation of Balances

1:2:8 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules and Regulations	Particulars of Non-compliance
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(a) Inland Revenue Act, No. 10 of 2006	Non-financial benefits had not been taken into account in the computation of the Pay As You Earn Tax.
(b) Economic Service Charges Act, No. 13 of 2006	Even though payments should be made before the twentieth day of the month following the end of each quarter, the Economic Service Charges payable accumulated up to 31 December 2012 amounted to Rs.6,137,904. That amount had not been paid even by 14 August 2013.
(c) Nation Building Levy Act, No. 9 of 2009.	The Nation Building Levy collected from external institutions in the year 2012 amounted to Rs.2,941,359. Action had not been taken to remit the amount for the Department of Inland Revenue.
(d) Employees' Provident Fund Act, No. 15 of 1958.	Even though the contributions in respect of each month should be remitted to the Employees' Provident Fund before the end of the month following the Provident Fund contributions of the Head Office and the Estates Division amounting to Rs.382,371,113 had not been so remitted.
(e) Employees' Trust Fund Act, No. 46 of 1980.	Even though the contribution in respect of each month should be remitted to the Employees' Trust Fund before the end of the month following, the contributions of the employees of the Head Office and the Estates Division amounting to Rs.29,141,216 had not been so remitted.

(f) Financial Regulations

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| (i) Financial Regulation
135 | Limits of financial authority had not been delegated to officers. |
| (ii) Financial Regulation
187(3) | Even though the income collected daily should be banked on that day or the following day, the banking of income collected in 10 instances had been delayed for periods ranging from 03 to 21 days. |
| (iii) Financial Regulation
371(2) | (i) Even though advances granted for a particular purpose should be settled immediately after the completion of the purpose, the settlement of advances amounting to Rs.432,566 obtained in 08 instances had been delayed for periods ranging from 01 month to 06 months.

(ii) Even though advances should be granted only to staff grade officers, advance had been granted to non-staff grade officers.

(iii) Even though the advances should not exceed Rs.20,000, advance exceeding such limit amounting to Rs.996,197 had been granted in 11 instances. |
| (iv) Financial Regulations 756
and 757 | The human and physical resources of the Head Office and the Estates and the stocks have not been verified annually and reports furnished to the Auditor General. |
| (v) Financial Regulation 1646 | The Daily Running Charts and the Monthly Performance Summaries of the motor vehicles attached to the Head Office and the Estates had not been furnished to the Auditor General. |

- (g) Treasury Circular No. 842 of 19 December 1978. The fixed assets valued at Rs.2,095,927,194 as at 31 December 2012 had neither been accounted for nor a Register of Fixed Assets maintained.
- (h) Public Administration Circular No. 319 of 20 December 1985. If the services of the Executive Tea Taster released to the Volunteer Force of Sri Lanka Army are obtained beyond the initial 60 days, the salaries and allowances paid to him by the civil authorities should be paid back to the civil authority by the Armed Forces. Nevertheless, the reimbursement of the sum of Rs.2,151,795 paid by the Janatha Estates Development Board from January 2007 to December 2012 had not been obtained from Sri Lanka Army.
- (i) Public Administration Circular No.. 41/90 of 10 October 1990. The fuel consumption of the motor vehicles attached to the Head Office and the Estates had not been tested once in every 06 months.
- (j) Public Enterprises Circular No. PED/39 of 28 July 2008. A sum of Rs.333,500 had been paid as transport and fuel allowances to 06 officers who are not entitled to such allowances.

2. Financial Review

2:1 Financial Results

According to the financial statements presented the operations of the Board for the year ended 31 December 2012 had resulted in the loss of Rs.199,543,725 as compared with the corresponding loss of Rs.257,823,702 for the preceding year and as compared with the preceding year, the loss had decreased by a sum of Rs.58,279,977 in the year under review. The decrease in the loss had been due to the decrease of 5 per cent in the cost of production and the decrease of 10 per cent in the operating and finance expenses.

2:2 Analytical Financial Review

Financial Position

	2012	2011
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Current Ratio	1:2.4	1:2.4
Quick Assets Ratio	1:2.8	1:2.6

2:3 Legal Action Instituted against the Board or by the Board

Cases had been filed against the Board by external individuals and the Board also had filed cases and a sum of Rs.2,202,488 had been paid as lawyers' fees in that connection in the year under review.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) Janatha Estates Development Board had maintained the activities of 16 Tea Estates and 01 Rubber Estate during the year under review. The loss incurred by the Estates Division in the year under review amounted to Rs.226,476,498 and the corresponding loss of the preceding year amounted to Rs.269,013,709. Accordingly, the loss for the year under review as compared with the preceding year indicated a decrease of 15 per cent.
- (b) The existence of a situation in which the prime cost of production of one kilogramme of tea cannot be covered by the income from the sale of one kilogramme of tea was observed. A comparison of the cost of production per kilogramme of tea, the normal sales average per kilogramme and the contribution per unit for the years 2010, 2011 and 2012, the loss on the contribution per unit ranged between Rs. 13 to Rs.469.

- (c) According to the Standards of the Tea Research Institute, the average crop per hectare of mid grown tea (made tea) is about 1,200 kilogrammes. But according to the information on 16 Estates of the Board the crop for the year under review ranged between 198 kilogrammes to 1,008 kilogrammes.

3:2 Management Inefficiencies

The following observations are made.

- (a) Out of the total production of tea at the Hope Estate, normally about 70 per cent of the production should be of main production category. Nevertheless, due to the weaknesses prevailing in the factory and the low quality of the Greenleaf, the contribution of the main production category had decreased to 50 per cent of the total production.
- (b) The seedlings of a nursery 09 months after the commencement of the nursery should be ready for planting in the field. Nevertheless, 53,113 seedlings of the nurseries of the Rockwood Estate commenced in the years 2009 and 2010 still remain in the nursery level. Had action been taken to remove the seedlings at the proper time and plant those in the fields, 04 acres of tea ready for cropping could have been developed at present.
- (c) The supply of electricity without meters to 05 official quarters and the Estate Office of the Rahatungoda Estate had been made through the electricity connection to the Tea Factory. As such the Board had to pay for household consumption at the commercial rates.
- (d) Action had not been taken for the recording of the inventory items of the Estates according to a formal system to facilitate identification.
- (e) Out of the total extent of 990 hectares of the Kandaloya Estate only 141 hectares had been used for tea cultivation and the balance 849 hectares had not been effectively utilized.
- (f) The cost of production of a bottle of drinking water produced by the Drinking Water Production Project of the Hope Estate commenced in the year 2010 at a cost of a capital expenditure of Rs.2,593,180 without approval and budgetary provision, amounted to Rs.17.90. But sales had been made at different prices

ranging from Rs.14 to Rs.35. Action had not been taken to account for as an accounting unit in costing while a pricing policy had not been implemented.

- (g) An extent of 310 hectares of the Rukatenna Estate had been transferred to the Janatha Estates Development Board by the Notification published in the Gazette No. 183/10 of 01 March 1982. But an extent of 299 hectares of the Rukatenna Estate only had been transferred in the transfer of Estates to the Plantation Companies in the year 1992. The evidence relating to the disposal of the balance extent of 11 hectares had not been furnished to audit.

3:3 Transactions of Contentious Nature

The following observations are made.

- (a) The advances obtained from the Brokerage institutions on the promise of settlement by the sale of future production as at 31 December 2012 amounted to Rs.137,450,446. There was no written agreement between the two parties with regard to the rate of interest charged and other terms and conditions. Action had not been taken to maintain separate accounts for each Brokerage institution and for the separate identification of interest charged on those loans.
- (b) The Janatha Estates Development Board had obtained a sum of Rs.50,000,000 from the Board of Investments of Sri Lanka in the year 2000 for the transfer of a part of the Hantana Estate to the Board of Investments of Sri Lanka. That land could not be transferred to the Board of Investments of Sri Lanka due to various reasons and it had been agreed to supply an alternate land. But this situation had not been settled even by 31 December 2012.
- (c) The advances obtained from external parties with the expectation of granting leases of blocks of land amounted to Rs.82,277,889 in the year under review. The information relating to obtaining the advances such as the determination of lands for lease, the recommendation of the Ministry Lands Committee obtained in that connection, the project evaluation reports furnished by the expected lessors. Valuation reports obtained from the Department of Valuation and the basis of selection of lessors had not been furnished to audit.

3:4 Apparent Irregularities

The following observations are made.

- (a) Four Estates official quarters had been given for occupation of a Samurdhi Officer and 03 Teachers who are not employees of the Hope Estate and the Kandaloya Estate.
- (b) Thirteen persons had been using 13 blocks of land 59.14 hectares in extent of the Kandaloya Estate from time to time from the year 1996 to 2008 without authority and the management had failed to recover the possession of those lands.
- (c) An extent of land of the Rahatungoda Estate exceeding 35 acres had been used by various parties in 23 instances without proper and the Board had not taken any course of action in that connection up to date.

3:5 Uneconomic Transactions

The following observations are made.

- (a) In view of the failure to pay the contributions to the Employees' Trust Fund, gratuities, Estate Employees Provident Fund and Lanka Planters Provident Fund on the specified dates surcharges amounting to Rs.6,543,415 comprising Rs.1,136,967, Rs.5,087,836, Rs.70,213 and Rs.248,399 respectively had been paid during the year.
- (b) Penalty of Rs.1,037,674 had been paid due to the delays in the settlement of electricity bills of Estates.

3:6 Idle and Underutilized Assets

The Tea Factory of the Kandaloya Estate had been closed down over 10 years ago and 03 employees over 60 years of age who served in the Factory are being paid salaries without obtaining any effective service. These employees had been paid salaries and allowances amounting to Rs.7,742,280 during the past 10 years.

3:7 Identified Losses

The following observations are made.

- (a) The net loss incurred by the Bottled Drinking Water Project of the Hope Estate for the year 2012 amounted to Rs.2,785,659 and the value of the outdated bottles of water destroyed amounted to Rs.80,000. A decrease of 7,730 bottles was observed between the number of drinking water bottles sent to the Head office in the year 2012 by the Hope Estate and the number of bottles received by the Head Office. The value of that amounted to Rs.126,772.
- (b) The payment made for carrying out repairs to a lorry which had met with an accident had exceeded the approved amount by a sum of Rs.523,905.
- (c) As the Tea Factories in operating condition are not being regularly maintained, the tea produced by those Factories is being sold at very low prices at the Lanka Tea Auctions and in the grading based on prices, as compared with the other Factories in the same production areas, those remained in very low grades continuously.
- (d) The unauthorized occupation of large extents from the Estates of the board by external parties were pointed out in my reports on the preceding years. According to the reply of the Chairman, a register of the unauthorized occupants had been prepared and that legal action is being taken against them. But any considerable progress thereon was not observed in audit.
- (e) A sum of Rs.45,710 had been spent on the Compost Project implemented by the Rahatungoda Estate in the year 2006. This stock which was not physically available as at the end of the year 2012, had been shown in the final accounts as a current assets.
- (f) Mulhalkele Estate which had not earned any income from January 2010 to May 2013 had paid a sum of Rs.13,404,948 as employees' salaries.

4. Accountability and Good Governance

4:1 Presentation of Financial Statements

According to the Public Enterprises Circular No. PED/12 of 02 June 2003, the annual accounts should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the Board had presented the accounts for the year 2012 only on 04 July 2013. The presentation of accounts had been so delayed from the year 2005.

4:2 Corporate Plan

Even though a Corporate Plan had been prepared for the years 2011 to 2013, the Board of Directors had, at the meeting held on 07 October 2011, decided to suspend the implementation of the Plan due to the prevailing unfavourable financial position.

4:3 Action Plan

The Action Plan for the year 2012 had not been implemented concurrently with the Corporate Plan.

4:4 Internal Audit

Even though an Internal Audit Unit functioned Internal Audit Programmes and Internal Audit Reports had not been furnished.

4:5 Audit Committee

Even though an Audit Committee had been established only one meeting had been held in the year under review.

5. 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.

- (i) Maintenance of Books and Registers
- (ii) Collection of Lease Rent Income
- (iii) Accounting
- (iv) Debtors and Creditors
- (v) Fixed Assets
- (vi) Income