Sri Lanka State Plantations Corporation - 2012

The audit of financial statements of the Sri Lanka State Plantations Corporation for the year ended 31 December 2012 comprising the Statement of financial position as at 31 December 2012 and the Statement of Income Statement of changes in equity and Cash flow Statement for the year 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 23 of the State Agricultural Corporations Act, No.11 of 1972. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial Auditing 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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the Statement of financial position, income statement and statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient an appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Financial Reporting Standards 01 (SLFRS 01)

Financial Statements of the year 2012 had been prepared by the Corporation in complying with the new Sri Lanka Accounting Standards (LKAS & SLFRS) and adopting for the first time. Different balances other than the audited balances of accounts in the year 2010 had been used and made calculations, when reviewing the financial position in the Statement of Financial position as at 01 January 2011 and while making adjustments to the balances in the audited Financial Statements as at 31 December 2010. Therefore, it had been shown in the test check that the Assets over stated by Rs.86,302,248 and the Capital and Reserves over stated by Rs.4,976,680,762 and the Liabilities over stated Rs.180,508,271.

Also, when disclosing the Comparative financial positions as at 31 December 2011, though it has to be made adjustments for the account balances as at 31 December 2011 the accounts had been shown by erroneously adjusting the audited balances as at 31 December 2011. Therefore it had been shown in the test check that the Assets under stated by of Rs. 741,386,166 and the Capital and Reserves over stated by Rs. 202,596,380 and the Liabilities over stated by Rs. 983,773,825.

(b) Sri Lanka Accounting Standards 01

Even though the fair information of Financial position of the institute, Operational Performance and Cash flow should be presented by the Financial Statements of the Institute, a sum of Rs. 30,126,630 in connection with the year 2012 and a sum of Rs. 29,004,316 in connection with the year 2011 had been reported as unidentified balances in the statement of cash flow and the Statement of changes in equity.

(c) Sri Lanka Accounting Standards 08

Even though the error adjustments made during the year under review amounting to Rs. 487,253,726 should be corrected before the approval of final accounts, action had not been taken accordingly.

(d) Sri Lanka Accounting Standards 12

The disclosures in respect of income tax such as the relationship between accounting profit and taxable profit, relevant tax ratios, unidentified tax liability or losses had not been disclosed.

(e) Sri Lanka Accounting Standards 16

As the land belongs to Walahanduwa Estate had been transferred to Plantations Corporation by Gazette notifications, a sum of Rs.620,000,000 being the value of this land had been adjusted to the profit of the previous year instead of accounting under property, plant and equipment as a contribution received from the Government.

(f) Sri Lanka Accounting Standards 24

Disclosures had only been made for the balances as at the end of the year without disclosing the transactions made with related parties.

(g) Sri Lanka Accounting Standards 40

Even though an asset which was of increased capital value or assets available to earn income of rent should be identified as Investment Assets, action had not been taken to account the value of lands and buildings which received a sum of Rs. 13,295,827 as rent in the year 2012 as investment assets and the disclosures which should be made in connection with the income of rent earned from investment assets had not been properly made.

(h) Sri Lanka Accounting Standards 41

Even though the Institute had identified and accounted the biological assets, the disclosures such as method of depreciation, effective life time or depreciation ratio had not been made.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Trial Balance inclusive of reclassification and re-measurement made when adopting new accounting standards had not been presented to audit.

(b) Even though, it was mentioned in final accounts that debtors amounting to Rs.47,537,071 had been written off out of the total Estate debtors amounting to Rs. 64,099,286, relevant adjustments had not been made in the ledger accounts. However, ability to recover the loan balances remained over a long period had not been queried.

(c) A sum of Rs. 480,000 payable to a private institute for the preparation of Financial Statements of the year under review had not been accounted.

(d) An unusual debit balance of Rs. 1,977,077 was shown in Tender deposit account due to repayment of tender deposits without verifying the particular amount payable.

(e) The profit of the year under review had been over stated as a reason of accounting VAT of a sum of Rs. 324,000 as related income.

(f) Though it has stated that depreciation is made only from the date of purchase to the date of disposal of Assets as per the depreciation policy, the depreciation had been calculated for the whole year for the assets of a sum of Rs. 4,446,990 purchased many instances during the year under review.

(g) Even though a sum of Rs. 1,645,340 spent for the preparation of a forest management report by the Corporation in the year 2011 was shown in the final account as a non-current asset identifying and accounting as a deferred expenditure, a policy of writing off such expenditure had not been identified and implemented.

(h) Excess of Rs. 276,790 in the opening balance of the current account of Head Office, shortage of Rs. 15,000 in the account of dust tea and an excess of Rs. 261,791 in other Creditors had been shown in bringing forward the opening balances of Rangala Estate in the year 2012.

(i) A sum of Rs. 16,141,130 paid as at 31 December in the year under review on the order of Courts as Employee Trust Fund and Employee Provident Fund of Hairpark Estate had been shown as current assets of the balance sheet by recording under a separate asset account instead of accounting against the liabilities.

(j) In accounting the relevant depreciation of assets in Gomara Estate, accounting is carry out according to the estimated data prepared at the beginning of the year and no depreciations are calculated based on the changes of fixed assets during the year. Also, the Estate had not taken action to account by identifying the under provision or excess provision calculating the actual depreciation at the end of the year.

(k) Expenditure of Miscellaneous projects of Rs. 1,616,396 implemented in the years 2009-2010 and completed as at the year under review had further been shown as work in progress.

(l) According to the information revealed in a survey conducted in the year 2009 to know the value of timber plantation of Rs. 3,312,160,200 included in the biological assets, although it had been mentioned that there were 162,346 all valuable trees in the estate had not been included.

(m) Even though a sum of Rs.186,994 of a saving account had been transferred to the current account of the Corporation in May 2012, such amount had been accounted as income instead of removing it from the saving account.

2.2.3 Lack of Evidence for Audit

The following items could not be satisfactory vouched or taken over due to non-availability of relevant evidence.

	Details of Accounts	Value Rs.	Evidence not made available
(a)	Biological Assets	3,437,403,222	Duly Updated Tree Inventory Registers
(b)	Allocation for Gratuity	193,684,554	Calculation Schedules
(c)	Fixed Assets	759,138,842	Schedules, Fixed Asset Register, Stock Verification Reports, Title Deeds
(d)	Debtors	20,882,430	Debtors Schedules, Age analysis, Confirmation of Balances of Debtors

(e)	Creditors	422,482,785	Creditors Schedules, Age analysis, Confirmation of Balances of Creditors
(f)	Consultancy Fees	60,000	Criteria for Selection, Agreement entered with the Consultant, Information on the service provided by the consultant.

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

Following Non-compliances with Laws, Rules and Regulations were revealed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
(a) Employee's Provident Fund Act No. 15 of 1958	Though the contribution for each month should be remitted to the Employees' Provident Fund before the ending of the following month, Employees' Provident Fund contribution of Head Office and Estate sector employees amounting to Rs. 433,053,602 had not been remitted.
(b) Employee's Trust Fund Act No. 46 of 1980	Though the contribution for each month should be remitted to Employees' Trust Fund before the ending of the following month, a sum of Rs. 30,354,874 being the contribution for the employees of Estate sector had not been remitted.

(c) Financial Regulations of
Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 103(I), 104(4)	A copy of the complaint made to the Police regarding the destruction of Alakolla Tea factory by an outbreak of fire had not been presented to audit and the facts to be included in the relevant report had not been included accordingly.
(ii) Financial Regulations 110	Register had not been maintained by containing the information with regard to the damages causing.
(iii) Financial Regulations 139(1)	14 vouchers related to the Head office of Sri Lanka State Plantation Corporation amounting to Rs.4,635,636 had been produced for payment without certifying.
(iv) Financial Regulations 139(4)	Actions had not been taken to collect receipts for payments totalling Rs. 3,495,230 in 32 instances.
(v) Financial Regulations 371(d)	Ad-hoc imprest totalling Rs. 102,215 had been granted to Non-staff Grade officers in 21 instances.

2.4 Transactions with Insufficient Authority

Assets of a sum of Rs. 29,271,190 shown in the Ledger accounts of the Corporation had been adjusted in the financial statements against the retained profit balance of the year under review without obtaining approval to write off the assets from the books.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2012 had resulted in a surplus of Rs. 1,046,935,245 as compared with the corresponding deficit of Rs. 131,672,590 for the preceding year. Thus increase of financial result of Rs. 1,178,607,835 was indicated in the year under review with compared to the previous year. Increasing the Fair value of timber plantation by Rs. 667,344,420 and correction and adjustment of the gratuity of a sum of Rs.487, 253,726 in the year 2012 had been the main reasons for this increase.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The produced tea harvest per hectare in the year 2012 was ranging from 274 to 862 kilograms in 11 estates controlled by the Corporation. It was observed that the efficiency and effectiveness of the operational activities of the Estates which are remained under the Corporation were at low level when compared the average produced tea harvest of 1663 kilograms per hectare in Matale and Kandy areas.

(b) When compared the production cost and net sale price per kilo of tea in the estates controlled by the Corporation in the year under review, the contribution of a kilo of produced tea was from minus 7 to minus 227.

(c) While the cost of net sales of a Kilo of tea in estates of Sri Lanka State Plantation Corporation was ranging from Rs. 241 to Rs. 300, test check carried out in the year 2012 in connection with the levels of average price in several Factories in the region of Western medium Elevation which belongs to Matale and Kandy Districts where private estates situated were as follows.

Factory	Average price per kilo in 2012
	Rs.
Melfort	477.77
Craighead	476.57
Imbulpitiya	438.95
Kataboola	429.45
Galamuduna	423.87
Kenilworth	405.43

Therefore, it was observed that net sale price in estates of the Corporation was at low level compared with the private estates.

(d) The tea production during the period of last ten years is shown a decline and the production for the year under review had been decreased by 36 percent compared to the year 2003. Absence of proper fertilization and maintenance of plantation had been the main reasons for this.

4.2 Management Inefficiencies

The following observations are made.

(a) Proper supervision had not been made in the disposal of 88 trees, sold at Rs.2,805,000, in Bambaragala Division of the Midland Estate. Therefore, it was revealed that discrepancies such as non-documentation of the height and circumference of felled trees, not marking the tree number properly on the roots of the trees cut, remaining the trees which were marked for cutting in the field and cutting the trees which were not marked for cutting.

(b) The variance of field weight and factory weight of tea leaves should be less than 3 per cent as per the accepted standards in tea industry. As per the test check carried out in Opalgala Estate in connection with the year 2012, the variance of field weight and factory weight of tea leaves was ranging from 5.8 per cent to 8.5 per cent.

(c) Although “a forest management report” had been got prepared from the University of Colombo spending a sum of Rs. 1,645,340 for making a policy regarding the forest plantation of the Corporation, the any fact contained in that report had not been implemented.

(d) Although it had been proposed, in the preliminary investigation report dated 06 July 2012 on the outbreak of fire in Tea factory of Alakolla Estate, to assess the cost of goods including machineries of the said Tea factory through a Government valuation officer, any step had not been taken regarding the same. Further, a sum of Rs. 720,000 had been paid on 23 August 2012 to a private institution for getting cut and clearing the iron debris at the factory without getting approval of the Board of Directors as well as inviting proper quotations. But management of the Institution had failed to sell the iron stock cut removed even as at the date of audit 21 April 2014.

(e) The electricity provided to the Tea Factory of Gomara Estate had been used by the Estate office, Estate Superintendent’s Quarters, Assistant Estate Superintendent’s Quarters and Quarters of the staff and a sum of Rs.1,361,290 had been paid as electricity charges during the year under review on commercial rate for the residential consumption of the Estate.

(f) The employee's gratuity payable at the end of the year under review was Rs.172,034,294.

(g) Even though a sum of Rs. 301,660 being the Value Added Tax payable by the Corporation had been collected from its customers in earning the rent income, action had not been taken to remit the relevant Tax to the Department of Inland Revenue. Also, no action had been taken to submit VAT returns to the Department of Inland Revenue which should be sent quarterly.

(h) A part of the land belong to Walahanduwa Estate had been acquired by 110 unauthorized occupants and a land in the extent of 25 acres had been given to a private company by the Land Reclamation Commission without a formal approval.

(i) Action had not been taken examining the exclusion of possession of lands in the extent of 11,915 hectares out of the lands transferred to the Corporation through Gazette notifications.

(j) The unidentified balance of Rs.1,933,044 shown in Ledger accounts had been shown in the Balance sheet as Inactive accounts without identifying.

4.3 Idle and Underutilized Assets

The Tea Factory belongs to Hagala Estate and 11 quarters situated in several areas had been abandoned without being used or maintained.

4.4 Identified Losses

The following observations are made.

(a) The Corporation had to pay an additional amount of Rs.282,678 as interest in the year 2012 due to improper settlement of Electricity bills of Kelebokka, Midland, Gomara, Hunnasgiriya, Galpilla and Alakolla Estates.

(b) Tea factory in Alakolla Estate had been destroyed by the fire broke out on 25 May 2012 and the values of the tea stock, green tea leaves, firewood and paper bags destroyed therein were Rs.4,550,377, Rs.327,285, Rs.98,314 and Rs.140,599 respectively.

5. Accountability and Good Governance

5.1 Rendering of Financial Statements

Although the Annual accounts should be rendered to Auditor General within 60 days after ending the financial year in terms of the Public Enterprise Circular No. PED/12 dated 02 June 2003, accounts for the year 2012 had been rendered by the Corporation only on 06 May 2015.

5.2 Corporate Plan

Even though a Corporate Plan for the period 2009-2013 had been prepared, most of those plans had not been able to implement due to poor financial position of the Institute.

5.3 Action Plan

The Action plan of the year under review had not been implemented in parallel with the Corporate Plan.

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

(a) Control over Vehicles
(b) Control of Fixed Assets
(c) Accounting
(d) Control of Debtors and Creditors
(e) Control of Cadre