

## **Tea Small Holdings Development Authority – 2012**

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### **1. Financial Statements**

#### **1.1 Opinion**

In my opinion, except for the effects of the matters described in paragraph 2:2 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 2012 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

##### **1.2.1 Unexplained Differences**

The following observations are made.

(a) Differences totaling Rs.362,909 were observed between six cash book balances and the cash book balances shown in the relevant Bank Reconciliation Statements.

(b) The following differences were observed between ledger accounts and related schedules of the Head Office and the Regional Offices.

Type of Loan	Balance according to Ledger Accounts	Balance according to Schedules	Difference
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	Rs.	Rs.	Rs.
Distress Loans	17,422,814	15,404,232	2,018,582
Housing Loans	41,253,692	41,412,838	(159,146)
Debt Relief Loans	99,691	53,810	45,881
Motor Cycle Loans	364,233	237,326	126,897
Cycle Loans	63,230	330,927	(267,697)
Festival Advances	86,106	57,000	29,106
Salary Advances	-	106,000	(106,000)
Special Salary Advances	67,950	9,000	58,950
ADB Loans	-	744,528	(744,528)
Welfare Loans	-	3,650	(3,650)
Sundry Advances	9,900	-	9,900

**1.2.2 Accounts Receivable and Payable**

The following observations are made.

- (a) Debtors amounting to Rs.5,925,956 of the Head Office and Rs.4,908,112 of the Regional Offices remained unrecovered for over 5 years.
- (b) Creditors of Kalutara, Kegalle and Uva Regional Offices aggregating Rs.1,288,967 remained unsettled for over 5 years.
- (c) An advance amounting to Rs. 12,968,728 paid to a contractor for the construction of Hanthana Training Centre had not been recovered over a period of 10 years. It was observed that the construction of the Training Centre was completed in 2001. The Chairman of the Authority stated that the unrecoverable amount will be adjusted in 2013 accounts according to the instructions given by the Department of National Budget.
- (d) Outstanding Re-scheduled Motor Vehicle Loans amounting to Rs. 8,147,878 had been carried forward for over 05 years without being recovered.
- (e) According to the information made available to audit, loans and advances receivable from retired officers and interdicted officers and other non-operating loans as at 31 December 2012 amounted to Rs.1,625,916.

**1.2.3 Lack of Evidence for Audit**

The following documentary evidence were not made available for audit.

Description -----	Amount -----	Evidence not made available -----
	Rs.	
Cost of Project Motor Vehicles	8,518,625	} Schedules and supporting documents
Motor Cycle Loans given to Tea Inspectors/Extension Officers	6,955,347	
Deposits Payable	225,100	
Motor Vehicle Loans	17,309	
Flood Relief Loans	20,452	
Welfare Loans and Advances	11,070	
Budget Grants for Smallholders	93,610,309	

**1.3 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
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<u>Treasury Circulars</u>	
(a) Circular No.842 of 19 December 1978	A Register of Fixed for the Head Office had not been properly maintained as required by the Circular.
(b) Circular No.IAI/2002/02 of 28 November 2002	The value of computer accessories and software had not been recorded in the Register of Assets in terms of the circular.

**2. Financial Review**

**2.1 Financial Results**

According to the financial statement presented, the operating activities of the Authority for the year ended 31 December 2012 had resulted a net deficit of Rs.154.16 million as compared with the corresponding net deficit of Rs.12.76million for the preceding year, thus indicating a further deterioration of Rs.141.4 million in the financial results. The increase in the operating expenditure and bad debits written off by Rs.83.44 million and Rs.45.54 million respectively had been the reasons for increase in the deficit.

**3. Operating Review**

**3.1 Performance**

**(a) Tea Smallholders Contribution to Tea Production**

According to the information made available to audit, the total tea production in Sri Lanka during the year under review had been 326.28 million kilograms and the tea smallholders contribution thereto had been 233.10 million kilograms or 71.4 per cent. The total tea production in Sri Lanka during the preceding year had been 328.37 million kilograms and the tea smallholders contribution thereto had been 229.94 million

kilograms or 70 per cent. As such the contribution of the tea smallholders had increased by 1.4 per cent during the year under review.

(b) Tea Plantation Developments

According to the statement of financial performance presented, subsidies amounting to Rs.276.3 million had been given for development activities such as tea replanting and new planting, extension services and social development and institutional strengthening during the year under review.

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Development cost (Rs. millions)	208.3	185.7	189.2	208.0	276.3
Implementation cost (Rs. millions)	188.7	202.1	205.4	218.5	233.5
Implementation cost per Rupee of the Development cost (Rs.)	0.91	1.08	1.08	1.04	0.85

The following observations are made in this connection.

(i) Tea Replanting Under Subsidy Schemes

According to the national requirement, 2,300 hectares should be replanted annually to get maximum yield and to sustain tea lands. However, according to the information made available, 889 hectares only had been replanted during the year under review under Subsidy Scheme and represented 0.76 per cent out of the matured tea lands totaling 116,492 hectares.

(ii) Extension and Advisory Services

\* According to the draft Annual Report, the staff of the extension services had conducted 6,508 Group Programmes during the year under review and indicated 6.6 per cent decrease as compared with the previous year.

- \* The participation of 143,456 farmers in the extension and advisory services during the year under review indicated a decrease of 18 per cent as compared with the preceding year.
- \* According to the information made available, the ratio of Extension Officers to farmers should be 1:1000 to achieve an effective extension service. However the actual ratio had been 1:2730. According to the cadre position of the Authority as at the end of the year under review, vacancies in 22 posts of Extension Officers existed.
- \* According to the Internal Audit Reports, it was observed that the Extension officers had had committed the following irregularities relating to subsidy payments.

Regional Office	Permit Number	Particulars of the Irregularity
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Uva	RP/HP/10/28 RP/HP/11/ 29	} Subsidy overpayments made amounted to Rs.189,824.
N’Eliya	RP/NE/2004/DO/66, 68 RP/NE/2005/DO/32, 34, 36 RP/NE/2007/DO/04,05,08,15,17 RP/NE/2008/DO/18	} Subsidy overpayments made amounted to Rs.519,503
	RP/NE /2004/ DO/ 62 RP/NE /2005/ DO /33	} Subsidy payments amounting to Rs.117,363 made for the permits on which any development activities had been done.
	RP/NE/2007/ DO /07 RP/NE/2007/ DO /06 RP/NE/2008/ DO /16 RP/NE/2008/ DO/ 19	} Subsidy payments amounting to Rs.267,102 made to the permits issued twice for the same land.
Kalutara	RP/KAL/2010/MAHA/21	Subsidy overpayments made amounted to Rs.64,752 .

The Chairman of the Authority had stated that some overpayments had been recovered or deducted from the next installment payments and disciplinary action had been taken against the officers for other irregularities.

\* According to the Internal Audit Reports, out of the total subsidy payments made by the eight Regional Offices amounting to Rs. 1,187.6 million during the period of 2003 to 2009, a sum of Rs.168.5 million had not been reported as they were paid for the replanting activities up to 31 August 2012. Therefore, it was observed that this unreported replanting subsidy payments were considered as fruitless.

The Chairman of the Authority had stated that the farmers had faced problems such as weather, economic, social, etc. during the cultivation period. Hence, some farmers take long period to cultivate and some had abandoned their cultivation. Therefore, the remedial actions had been taken by the Authority for eliminate these problems in future.

(c) Institutional Plant Nurseries

The following observations are made.

- (i) According to the financial statements, the operations of 07 Plant Nurseries had resulted in a loss of Rs. 571,700 during the year under review as against the profit of Rs.870,639 for the preceding year, thus indicating a decrease of Rs. 1,442,339 in the operating results.
- (ii) The Tispane Nursery had incurred losses continuously and losses amounting to Rs.314,573 and Rs. 64,054 were observed during the year under review and previous year respectively.
- (iii) The number of perished plant of 07 nurseries of the Authority in the year under review had been 306,317 and represented 33 per cent of the total plants. The perished plants of Rahathungoda, Higuloya, Hedigalla and Tispane Nurseries had abnormally increased during the year under review.

(d) Registration of Commercial Plant Nurseries

According to the information made available, 969 nurseries had been registered by the Regional Offices of the Authority during the year under review. Out of that, the plants of the 338 nurseries only were recommended for selling.

The Chairman had stated that, the actual satisfactory seedlings were produced by 620 registered nurseries and some plants were sold before the C.N.05 test due to the delay of recommendation of the officers of the Tea Research Institute.

(e) Distribution of Tea Fertilizer

According to the Tea Fertilizer Distribution Account, 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 -----	
	2012 Rs.	2011 Rs.
Sarasaviuyana	closed	(174,121)
Poramadulla	(33,009)	(132,161)
Hingulla	closed	(269,247)
Gampola	(43,168)	134,044
Bandarawela	(3,275)	(2,219)

It was observed in audit that these Fertilizer Centres had not functioned after the establishment of Government National Fertilizer Scheme in 2010. A fertilizer stock valued at Rs.81,800 (442 kgs) at the Sarasaviuyana Fertilizer Centre had remained in the stores from the beginning of the year under review. Even though the distribution of 985 metric tons of dolomite among the 08 Regional offices through the Loan Scheme had been envisaged in the Action Plan, only 632 metric tons had been distributed among 04 regional offices.

The Chairman had stated that the Fertilizer Centres had not functioned as Fertilizers were available freely in the island at concessionary prices. Although it was planned to distribute dolomite among farmers, the farmers had not requested dolomite as it was available sufficiently at tea fields and not necessary to provide loan facilities to them.

(f) Tea Small Holdings Development Societies

According to the draft Annual Report, 1,381 Tea Small Holdings Development Societies had been registered and the total registered members had been 261,493 as at the end of the year under review. As compared with the previous year, an increase of 02 Societies and the decrease of 12,668 members were observed. However, according to the Statistical Report and the information received from 1,240 Societies, 82 Societies had not been in operation while the operations of 319 Societies had been poor.

Range Development Committee Programmes were being conducted for strengthening the community based organizations of tea smallholders such as Revolving Fund and Society monitoring system to enhance productivity. According to the progress reports, only 120 Programmes had been conducted during the year under review although 836 Range Development Committee Programmes were targeted. It was observed that no Range Development Committee Programmes had been conducted in Galle, Matara and Kandy Regional Offices although 383 programmes were targeted.

3.2 Assets Management

The following observations are made.

- (a) Staff quarters valued at Rs.485,736 at Pothupitiya of Rathnapura Regional Office had not been utilized over a long period.
- (b) The ownership of the office building, staff quarters and a tea land at Alapaladeniya of Matara Regional Office had not been undertaken by the Authority up to the date of audit on 30 May 2013. However, this tea land had been leased out for a monthly rental of Rs.6,000 for 05 years from the year 2011 without obtaining approval from the Board of Directors of the Authority. However, the Chairman had stated that the lease agreement had been cancelled in the year 2013.



- (c) It was observed in audit that an excess stocks of publications valued at Rs.484,641 were in the stores without being distributed to the stakeholders as at the end of the year under review due to the printing delays.

3.3 Resources of the Authority Provided to other Public Sector Institutions

Two motor vehicles had been released to the line Ministry from 11 August 2011 contrary to Section 8:3:9 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

3.4 Human Resource Management

Particulars of the approved and actual cadre of the Authority as at 31 December 2012 are given below.

Category	Approved Cadre	Actual Cadre	Vacancies
Senior Level	39	16	23
Secondary Level	44	41	03
Tertiary Level	293	261	32
Primary Level	46	44	02
Total	422	*362	60

\* 76 redundant posts had not been included in the actual cadre.

The following observations are made in this connection.

- (a) There were 60 vacancies including 23 Executive Grades as at 31 December 2012.

According to the Chairman's comments, 13 vacancies of senior level and 27 vacancies of tertiary level had been filled on 30 September 2013. Fifty posts out of redundant posts had been approved as personal to them as they were in the service at the time.

- (b) An Assistant Manager (Project) had been appointed according to the letter dated 26 December 2011 of the Department of Management Service outside the cadre. It was observed that a separate duty list was not issued to him and there were no specific duties assigned to him to perform in the Authority during the year under review.

- (c) A Management Assistants and a Receptionist had been appointed on a casual basis and contract basis respectively without following the Scheme of Recruitment of the Authority.
- (d) Educational and service certificates of the staff had not been referred to the respective institutions to obtain confirmation.
- (e) Post of Human Resources and Administration Manager was vacant since 27 April 2010 and an officer had been appointed as Acting Manager from 02 August 2010 on the payment of a monthly allowance of Rs.1,100. No action had been taken to recruit a suitable person to fill this post up to the date of audit on 31 August 2013.
- (f) Action had not been taken to fill five posts of Regional Managers and eleven posts Assistant Regional Managers for Extension, Planning and Development activities which were vacant as at the end of the year under review.

### 3.5 Utilization of Motor Vehicles

The following observations are made in connection with the Motor Vehicles fleet of the Authority consisting of 26 motor vehicles and 115 motor cycles.

- (a) Two motor vehicles had been lying idle from the year 2011 without being repaired.
- (b) The ownership of three vehicles received under IRDB Project had not been transferred to the Authority.

(c) A motor vehicle which did not belonging to the Authority had been lying idle in the Authority premises from 2012 up to the date of audit on 05 September 2013.

The Chairman had stated that although the letters had been sent to the owner of the motor vehicle to remove it from the premises on 06 November 2012, 06 March 2013 and 09 October 2013, the motor vehicle had not been removed by him.

(d) A motor vehicle which had met with an accident on 30 March 2012 had not been repaired and obtained insurance claim. The value of the estimated damage amounted to Rs.20,850.

### 3.6 Investment of Gratuity Provision

Out of the total provision of gratuity amounting to Rs.115.9 million, a sum of Rs.7.89 million of 6.8 per cent only had been invested up to 31 January 2014. Hence, the Authority had not invested adequate funds to meet future liability as stipulated in the Payment of Gratuity Act, No.12 of 1983.

The Chairman had stated that adequate funds were not allocated by the Treasury for the gratuity investments. However, annual allocation will be received from the Treasury for the payment of Gratuity.

## **4. Accountability and Good Governance**

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### 4.1 Presentation of Financial Statements

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According to the comments and observations made by the audit, the Authority had withdrawn the financial statements for the year 2012 and resubmitted on 07 May 2014.

**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 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) Cash Control and Bank Reconciliations
- (c) Payment of Subsidies
- (d) Payments and Recoveries of Loans and Advances
- (e) Assets Management.

