

## **Sri Lanka Tea Board - 2013**

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The audit of financial statements of the Sri Lanka Tea Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of income, statement of comprehensive income, statement of changes in equity and the statement of cash flow for the year then 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. My comments and observations which I consider should be published with the annual report of the Board 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 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 my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810 ). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 Qualified 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 Sri Lanka Tea Board as

at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## **2.2 Comments on Financial Statements**

### **2.2.1 Sri Lanka Accounting Standards (SLFRS/ LKAS)**

The following observations are made.

#### **(a) LKAS 16 – Property, Plant and Equipment**

- (i) The fixed assets had not been revalued as required by the Standard and as such the fair value of certain fixed assets were not reflected in the financial statements as at end of the year. Further, the value of the land at Gampola Regional Office had been shown as Rs.17,000 in the financial statements.
- (ii) Fully depreciated assets purchased at a cost of Rs.68.13 million which are continuously being used by the Head Office and Regional Offices had not been revalued and brought to account.

#### **(b) LKAS 39 – Financial Instruments – Recognition and Measurements**

A sum of Rs. 4,329,769 receivable from a Tea Factory since the year 1995 had been taken into account without considering the possibility of recoverability.

### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) Action had not been taken to adjust the goods in transit in the years 2010, 2011 and 2012 totaling to Rs.693,257 although the goods had been received subsequently.
- (b) Even though a sum of Rs. 8,000,000 had been shown as a construction of Mathugama Regional Office under work-in-progress and creditors as at 31 December 2013, no payments had been made during the year under review for this construction works. Further, the Agreement of this construction works had been entered into only on 08 January 2014, thus this transaction was not relevant for the year under review.
- (c) The value of the leasehold land at Bandarawela Regional Office amounting to Rs.224,280 had been shown under freehold land instead of being shown under leasehold land.
- (d) Interest amounting to Rs.97,368 receivable on Repurchase Agreements for the year under review had not been taken into account and as such the surplus of the year under review had been understated by this amount.
- (e) Withholding Tax on interest income amounting to Rs.22,896,392 for the year under review had been omitted in the accounts and as a result the current assets and the surplus for the year under review had been understated by a similar amount.

- (f) LP Gas pipeline valued at Rs. 344,321 purchased for Tea House had been considered as expenses of Promotional Levy without being capitalized.
- (g) A sum of Rs. 900,000 received in advance from 13 companies as monopoles rental had been taken into income for the year under review. Therefore, the income for the year under review had been overstated by a similar amount.
- (h) The Board had paid a sum of Rs.205,060,800 to the Sri Lanka Cricket as Sponsorship Fees for the period from June 2013 to May 2014. However, it was observed in audit that the whole amount had been taken into account as expenses for the year under review instead of a sum of Rs. 85,442,000 being shown as a prepayment.
- (i) Even though the value of the stock of stationery according to the stock verification amounted to Rs.1,392,775, it was taken into accounts as Rs.3,178,836. Therefore, the stationery stock had been overstated by Rs.1,786,061 in the accounts.
- (j) A sum of Rs. 35,986,763 had been taken into accounts as goods in transit as at the end of the year under review, even though those items had not been ordered by the Board even up to the end of the year under review.
- (k) It was observed in audit that the current assets and current liabilities amounting to Rs. 403,153 and Rs. 801,119 respectively of the Tea Promotional Units in Moscow and Dubai had not been taken into the accounts.
- (l) Interest on Temporary Surplus Trust Fund for the year 2012 amounting to Rs.16,930,787 received during the year under review had been taken to the income for the year under review. Therefore, the interest income for the year under review had been overstated by the same amount.
- (m) Notional Tax on interest income of Rs.363,851 relating to Repurchase Agreements had not been taken into income.

### **2.2.3 Accounts Receivable and Payable**

The following observations are made.

- (a) A sum of Rs. 25 million shown as receivable from Janatha Estates Development Board for more than five years had not been recovered even up to end of the year under review. However, a provision had been made for a similar amount under bad and doubtful debts as the recovery was doubtful. Further, according to the minutes of the meeting of the Committee on Public Enterprises held on 19 June 2012, the Janatha Estates Development Board and the Board had arrived at a decision to acquire the ownership of the Ceylon Tea Museum at Hantana, belonging to the Janatha Estates Development Board valued at Rs. 16 million and to write off the balance of Rs. 8 million. However, this process had not been completed even up to the date of audit on 31 October 2014.

- (b) Action had not been taken to settle the Green Tea Leaf Suppliers deposits amounting to Rs. 4,225,671 since the year 2006. *The Chairman had stated in this regard that out of this, an amount of Rs. 2,599,793 cannot be refunded as those should be kept for payment when a dispute arises.*
- (c) An advance of Rs. 631,737 paid by the Board during the year 2011 to conduct the FODEXPO Trade Fair in Syria had not been recovered as it had not been conducted.

#### 2.2.4 Unexplained Differences

The following unexplained differences were observed in audit.

Item -----	Amount according to the financial statement ----- Rs.	Amount according to the confirmations/ related registers/ schedules ----- Rs.	Difference ----- Rs.
Creditors (Official Tea Packer)	7,878,879	3,961,506	3,917,373
Retention Money	4,171,495	1,270,371	2,901,124
Cash and Bank Balances (Tea Promotional Unit in Dubai)	1,003,151	1,371,000	367,849
Green Leaf Dealer Deposits	15,195,743	15,060,580	135,163

#### 2.2.5 Lack of Evidence for Audit

The following evidence indicated against each item shown below had not been furnished to audit.

Items of Account -----	Value ----- Rs.	Evidence not made available -----	
(a) Refundable Deposits	316,493	Schedules and supporting Documents	
(b) Land of Bandarawela Regional Office	224,800	Lease Agreement	
(c) Land of Mathugama Regional Office	-	Title Deeds of the Land	
(d) General Deposits	74,383	Schedules and supporting Documents	
(e) Staff Tea Recoveries	257,382		
(f) Payments in Advance	7,105,299		
(g) Deposits and Prepayments	207,360		
(h) Bank Balance at - UAE	1,003,151		
	- Moscow	416,229	Bank Confirmations
(i) Embassy Account -UK	16,566		
	- Canada	134,377	
	- Poland	135,426	

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

The following non-compliances were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
(a) (i) Section 49 of Tea Control Act, No.51 of 1957 and Section 25(3) of Sri Lanka Tea Board Law, No. 14 of 1975	Registration fees, registration renewal fees and license fees had been increased by the Board on 29 July 2010 without obtaining the approval of the Cabinet of Ministers and being published in the Gazette of the Democratic Socialist Republic of Sri Lanka according to the Act.
(ii) Sections 13 and 14 of Sri Lanka Tea Board Law, No.14 of 1975	Amendments had not been made to the Provisions of the Act for the establishment and operation of the Cess Fund.
(b) Section 132 of the Inland Revenue Act, No. 10 of 2006	The Pay As You Earn Tax had not been deducted and remitted to the Department of Inland Revenue from the total salaries amounting to Rs.1,560,000 paid to a Project Consultant appointed to the Tea Promotion Division for the period from 02 August 2012 to 01 August 2013.
(c) Government Financial Regulations  Financial Regulation 507	Book balances and the value of fixed assets had not been taken into the Board of Survey Reports in terms of provisions in the Regulation. As such the discrepancies between the quantity recorded in the books and physically available balances were not shown in the Boards of Survey Reports and as a results the objectives of the Boards of Survey had not been fulfilled.
(d) Treasury Circular No.842 of 19 December 1978	The register of fixed assets had not been updated and properly maintained in terms of the Circular instructions.
(e) Management Services Circular No. 2012 MSD 49 of 24 December 2012 and No.01/2013(i) of 09 December 2013	Annual Bonus for the years 2012 and 2013 had been paid without adhering to the Circular instructions.

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operation of the Board for the year ended 31 December 2013 had resulted in a surplus of Rs.19,071,236 as against the deficit of Rs. 11,390,437 for the preceding year, thus indicating an improvement of Rs.30,461,673 in the financial results for the year under review. This improvement was mainly due to the increase of registration and renewal income, and decrease of administration and operating expenses of the Board for the year under review.

**4. Operating Review**

**4.1 Achievements of Financial and Physical Targets**

The achievements of targets according to the Progress Reports of the Board for the year under review are shown below.

**(a) Development Activities**

	<u>Activity</u> -----	<u>Allocation</u> -----		<u>Progress</u> -----	
		<u>Financial</u> <u>Targets</u>	<u>Physical</u> <u>Targets</u>	<u>Financial</u> <u>Progress</u>	<u>Physical</u> <u>Progress</u>
		Rs. millions	Rs. millions	Rs. millions	Rs. millions
i.	Factory Modernization Subsidy Scheme	16	65 Factories	17.96	39 Factories
ii.	Tea Replanting Subsidy Scheme	16	250 Hect.	14.36	259 Hectares
iii.	Minimizing Post Harvest Activities	12	35 Factories	1.42	15 Factories
iv.	SLSI/SLTB Quality Product Certification	01	35 Programmes	0.46	-
v.	Factory Based Tea Development Programmes	0.30	35 Programmes	1.79	15 Programmes
	Total	45.30		36.00	

According to the above information the activity of Tea Replanting Subsidy Scheme only was completed as planned. Although 65 factories targeted to be modernized under the Subsidy Scheme during the year under review, only 39 factories had been modernized exceeding the allocation by Rs. 1.96 million.

**(b) Buildings and Structures**

	Activity -----	Progress -----		
		Allocation	Financial Progress	Physical Progress
		Rs. millions	Rs. millions	Rs. millions
i.	Renovation of Auditoriums and Head Office Building	20	-	-
ii.	Construction of District Office at Kalutara	08	-	-
iii.	Construction of District Office at Nuwara Eliya	12	0.05	In progress
	Total	40.0	0.05	

It was observed in audit that the above activities also had not been completed as planned during the year under review. *According to the Chairman's reply the renovation of Auditoriums could not be done as the concurrence of the Honorable Minister of Plantation Industries had not been given to the Finance Minister for approval in terms of provisions in the Financial Regulations.*

**(c) Acquisition of Capital Assets**

According to the Procurement Plan for the year under review the following assets had not been purchased as planned.

Asset -----	Value ----- Rs. millions
Equipment for Information Technology Unit	12.11
Laboratory Equipment	7.80
	----- 19.91 =====

**4.2 Levies for Tea Promotion and Marketing Strategy**

The collection of Levy from tea exporters at the rate of Rs.3.50 per kilogram of tea exported in terms of Notification published in the Gazette No.1677/14 of 27 October 2010 for tea promotion and marketing strategy and the expenses incurred for tea promotional activities during the period from 01 November 2010 to 31 December 2013 by the Board are given below.

Year	Levy Collected	Interest on Investments	Other Income	Total Income	Total Expenses
	Rs.millions	Rs.millions	Rs.millions	Rs.millions	Rs.millions
2013	1,156.37	363.80	3.60	1,523.76	336.32
2012	1,186.45	211.48	-	1,397.93	36.02
2011	1,113.81	66.44	-	1,180.26	25.76
2010	194.28	-	-	199.28	-
Total	3,650.91	641.72	3.60	4,301.23	398.10

The following observations are made in this connection.

- (a) In the absence of a proper plan and management, a sum of Rs. 398.10 million or 9.27 per cent out of the total income of Rs.4,301.23 million had only been utilized for the promotional and marketing strategies up to the end of the year under review .
- (b) Although the main objective of the levy collection is to utilize the collection for Tea Promotions and Marketing Strategies, the money had been invested on short term investments and earned a sum of Rs. 641.72 million as interest during the year under review due to delay in conducting promotional activities.
- (c) According to the budget and Action Plan for the year 2013, an amount of Rs. 19.95 million had been allocated for Market Intelligence Activities. Nevertheless, no research activities had been conducted during the year under review other than the payment of Rs. 2.45 million made to Euro Monitor Global Research Data Collection for the year 2013. Further, a Project Consultant and a Graphic Designer had been appointed on contract basis for a monthly salary of Rs. 130,000 and Rs. 31,500 respectively on 02 August 2012 for a proposed Global Campaign for New Marketing Cell. However, this activity also had not been implemented up to 30 August 2013 and a sum of Rs.1,406,391 had been paid as salaries during the year. The Project Consultant had resigned from the service after the completion of his contract period on 01 August 2013.
- (d) Although the budgetary provision of Rs.1,995 million had been made for promotional and marketing strategies for the year under review, a sum of Rs.336.32 million or 16.85 per cent only had been utilized during the year under review.
- (e) Although a sum of Rs. 1,197 million had been allocated for Uni-National Activities in 28 countries, only a sum of Rs. 42.18 million (3.5 per cent ) had been spent under this activity. It was observed in audit that most of the payments were made for Commonwealth Heads of Government (CHOGM) Meetings held in 2013 under Uni-National Activities.
- (f) The following expenses had been incurred during the year under review to establish a Tea House at Race Course Building, Colombo on rent basis and paid 50 per cent of non-refundable rent deposit for 10 years commencing from 28 February 2014. Details are shown below.



	Rs.
Fifty per cent of non-refundable rent deposit for 10 years	8,571,360
Construction and Interior work (lighting, floor concreting and carpeting, laying pipelines, painting etc.)	11,934,325
Purchase of kitchen equipment	6,635,547
Installation of Air Conditioning	1,482,819
Goods in transit relating to Furniture and kitchen items	16,813,383
	-----
	45,437,434
	=====

In addition to the above expenses, sums of Rs 4,000,000, Rs. 270,000 and Rs.300,000 had been paid as initial cash float, monthly rent, and monthly management fees respectively for the operation of Tea House. However, it was observed in audit that a feasibility study had not been carried out for the operation of Tea House and as a result a loss of Rs.4.59 million had been incurred during the first six months period from March to October 2014.

- (g) Although an amount of Rs.665 million had been allocated for Sri Lanka Cricket for the year under review, a sum of Rs. 207.96 million only had been spent during the year for this activity. Therefore, it was observed that an over allocation of Rs.457 million was made in this connection.
- (h) According to the Cricket Sponsorship Agreement, a sum of Rs. 9,943,000 had been spent for purchase of 9,943 T-Shirts. However, these T-Shirts had not been sold as expected during the year. Although a sum of Rs.3,521,500 had been shown in financial statements as profit on sale of T-Shirts, 1,229 T-Shirts costing 1,229,000 had been returned in the year 2014. Therefore, the profit on sale of T-Shirts had been overstated by Rs.1,711,200.
- (i) According to the information made available for audit, the position of Ceylon Tea in the world market was in third place continuously for past five years among the World Tea Exporting countries and it was observed that proper promotional activities had not been conducted by the Board although the funds were available.

#### **4.3 Human Resources Management**

According to the information made available there were 79 vacancies as at 31 December 2013 including Director General, Director (Administration and Finance), Deputy/Asstnt Director (IT), Deputy and Assistant Tea Commissioner (Regional), 34 Senior and Junior Tea Inspectors/Instructors, 08 Technical Assistants (Lab) etc. Further, 33 redundant posts were included in the actual cadre.

The following observations are also made in this connection.

- (i) Fourteen Management Assistants had been appointed during the year under review without calling applications through a public advertisements or a newspaper advertisement in terms of paragraph 5.4 of the Scheme of Recruitment. Further a test for computer knowledge also had not been conducted in terms of paragraph 5.4.1 for these appointments.

- (ii) Out of 09 Management Assistants appointed in 2012, five persons appointed did not possessed required qualifications in terms of paragraph 5.3.1 of the Scheme of Recruitment and those were still in service without completing the required qualifications.
- (iii) A newspaper advertisement had been published for recruitment to the post of Director (Finance and Administration) on 07 April 2013 at a cost of Rs. 87,024. Nevertheless no officer was appointed and the money spent for the advertisement had become fruitless expenditure.
- (iv) It was observed that a proper staff rotating method had not been applied by the Board.

#### **4.4 Management Inefficiencies**

The following observations are made

- (a) The building occupied by the Tea Commissioner's Division had been vacated on 31 December 2002 and the rent advance amounting to Rs. 2.4 million deposited with the owner of the premises had been recovered by the Board through an arbitrator by spending Rs. 2.8 million since 2005 to 30 May 2011. However, the owner of the premises had appointed an arbitrator against the Board in October 2008 by claiming Rs.4.9 million with 20 per cent interest and 15 per cent value added tax for the damages to the building and failure to restore the area of the building to be leased from January to September 2003. The Board had appealed against this case and the proceedings are still in process. According to the Chairman's reply it is assumed that the total payments to the owner would be Rs.14 million. However Sri Lanka Tea Board had filed an appeal against this decision.
- (b) Laboratory equipment (LCMC) valued at Rs. 32 million purchased in the year 2009 had been idling up to the date of audit on 14 July 2014. The Chairman had stated that the equipment are functioning properly now and testing reports are being taken.

### **5. Accountability and Good Governance**

#### **5.1 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.

### **6. Systems and Controls**

Deficiencies in the systems and controls observed during the course of audit were brought to the notice of the Chairperson of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Inventory Control
- (b) Accounting
- (c) Receivables and Payables
- (d) Promotional Activities

