

Tea Research Board - 2013

The audit of financial statements of the Tea Research Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 15 of the Tea Research Board Act, No.52 of 1993. 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 Public Sector 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 Tea Research Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)

(a) SLPSAS - 07

(i) Although the land and buildings are separable assets and are accounted for separately, the Board had been shown the value of land and buildings amounting to Rs.201.14 million together in the financial statements instead of being shown them separately.

(ii) Fixed assets amounting to Rs. 158.20 million had not been categorized in the ledger accounts in accordance with the standard. It was observed in audit that the value of those fixed assets were brought forward from long period of time and the fixed assets valued at Rs. 662,077 at Chemistry Laboratory in Colombo could not be physically identified as there were no such a Laboratory in Colombo belongs to the Board. Further, the Chairman of the Board had informed me on 01 September 2014 that, since the Institute is an entity of more than 75 years old and its assets are very old and available in the Head Office, Talawakelle, 5 substations, two estates and in many other staff bungalows. Most of such assets are depreciated fully and appeared in the accounts at zero value. The assets depreciated to the zero value have been identified. The Department of Valuation has undertaken the re-valuation process is almost completed.

(b) SLPSAS - 09

Although inventories are usually written down to the net realizable value, an unusable tea research scientific stocks at a cost of Rs. 302,893 and shown in the books since 2005 without being determined the net realizable value of the stocks.

2.2.2 Accounting Policies

The accounting policy of the development expenditure had not been disclosed in the notes to of the financial statements for the year under review .

2.2.3 Accounting Deficiencies

Following observations are made

(a) Advances amounting to Rs.800,000 and Rs.1,000,000 had been given to the officer in charge of Low Country Regional Office of the Board and Tea Small Holdings Development Authority for training of trainers under Mechanization of Tea Harvesting in Tea Small Holdings Sector Project. However, these amounts had been debited to work-in-progress in full at the end of the year under review without debiting to advances to on going Projects as this activity was in progress.

(b) Although a sum of Rs. 4,142,173 had been shown under works in progress since 1982 to test the suitability of tea processing in Sri Lanka during the period 1979 to 1982, it was observed that the project was abandoned due to the machineries purchased were unsuitable for the tea production process in Sri Lanka in those days. However, action had not been taken to adjust the accounts up to the end of the year under review.

2.2.4 Unexplained Differences

Although sums of Rs. 30,459 and Rs.1,972,668 had been shown as receivables from Tea Smallholdings Development Authority and Sri Lanka Tea Board respectively as at the end of the

year under review, no such amounts had been shown as payables to the Board in the financial statements of the respective institutions.

2.2.5 Accounts Receivable and Payable

The following observations are made.

- (a) Sundry debtors amounting to Rs.232,386 relating to the Head Office had remained as unsettled for over two years.
- (b) Actions had not been taken to recover the debtor balances of St. Coombs Estate totaling Rs.697,663 those were outstanding for over five years.

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

The following instances of non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(i) Financial Regulation 177(1) and (3)	Daily collections had been made during the year under review amounting to Rs.3,616,770 and Rs.1,538,515 by St. Coombs Factory and St. Joachim Factory respectively had not been banked daily or at the earliest possible time period and some of these collections had been utilized to meet the day to day expenses.
(ii) Financial Regulations 371(2)(c)	(i) Settlement of advances amounting to Rs.280,198 had been delayed more than three months after the completion of the purposes for which it was given. (ii) The cash advances amounting to Rs.15,267 given by St. Coombs Factory had not been settled for more than 05 years.
(b) Treasury Circular No 842 of 19 December 1978	Register of fixed assets had not been properly maintained as specified by the Circular.

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 a deficit of Rs. 23.42 million as compared with the corresponding net deficit of Rs.28.68 million of the preceding year, thus indicating an increase of Rs.5.26 million in the financial results. This increase was mainly due to the increase of other income by Rs18.66. Further, the profits from two Estates were decreased by Rs. 8.41 million as compared with the previous year.

3.2 Operating Review

3.2.1 Operating Results of the Estates

Two Estates, namely St. Coombs Estate and St. Joachim Estate including two factories are functioning under the Institution and the operating results of the Estates for the year under review as compared with the preceding year are given below.

	<u>St. Coombs Estate</u>		<u>St. Joachim Estate</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Tea Sales</u>				
Sales Value	183,877	173,875	138,729	111,773
Other Income	2,103	2,356	19,557	15,524
Total Income	185,980	176,231	158,286	127,297
<u>Less:</u>				
Total Expenditure	(179,510)	(153,263)	(159,177)	(135,021)
Operating Profit /(Loss)	6,470	22,968	(891)	(7,724)
Prior year adjustments	(32)	(335)	(187)	(1,141)
Net Profit/(Loss) (Rs.'000)	6,438	22,633	(1,078)	(8,865)
Sales (Kilograms)	374,098	376,712	297,899	283,065
Cost of Production per Kilogram of Tea (Rs)	473.21	411.49	455.89	405.25
Yield per Hectare (Kilograms)	2,400	2,293	1,746	774
Net Sales Average (Rs. per Kilogram)	485.05	455.29	458.62	388.37

The following observations are made in this connection.

- (a) The quantity of sales of the St.Coombs Estate had decreased by 2,614 kilograms in the year under review as compared with the preceding year and the operating profit had also decreased by Rs.16.5 million though the sales were increased by Rs.10 million.
- (b) As a result of increasing of sales of tea by 14,834 kilograms, the operating loss of St. Jochims Estate had decreased by Rs.6.8 million as compared with the preceding year.

(c) According to St. Jochims Estate accounts it was observed that the profit of Rs.1.49 million had been earned from the factory and a loss of Rs. 4.9 million had been sustained from tea estate during the year under review. According to the Tea Book 211,045 kgs of green tea leaves had been obtained from the estate and 1,200,527 kgs had been purchased from the tea leaves suppliers during the year under review. It was further observed that it would have been obtained more harvest, if infilling activities had been carried out continuously in vacant areas of the Estate. According to the records submitted for audit there were 329,796 vacant plants as at the end of the year under review. Even though a profit of Rs. 1.3 million earned from rubber cultivation, no any income had been earned from 35 tenant cultivators whom utilized 8.74 hectares of paddy lands.

(d) According to the information made available, the tea production capacities of the machines in two factories were 10,000 kgs and 15,810 kgs per day. However, it was observed that the actual average utilization of the machineries per day were 4,630 kgs (46.3 per cent) and 3,870 kgs (24 per cent) respectively.

4. Performance Review

4.1 Research activities

The following observations are made.

(a) According to the Progress Reports made available for audit, the financial progress of Research and Development activities of the Board during the year under review are shown below.

	Programme -----	Amount Allocated		Financial progress	
		Capital Rs. Million	Recurrent Rs. million	Capital %	Recurrent %
i.	Crop Improvement	11.50	12.89	64.70	96.97
ii.	Land productivity improvement	8.81	21.86	71.96	106.31
iii.	Impacts of climatic change, adaption and mitigation strategies	1.54	2.11	77.92	101.90
iv.	Mechanization of field practices	0.03	1.84	33.33	135.33
v.	Nursery management techniques	0.52	0.98	90.38	185.71
vi.	Crop management	5.67	11.77	53.26	91.33
vii.	Tea processing technology.	2.17	7.56	72.81	96.30
viii	Made tea quality	0.74	1.83	6.76	45.36
ix.	Value added tea product	5.97	3.65	58.29	41.64
x.	Resource planning	0.44	3.00	29.55	71.67
xi.	Experimental protocol improvements.	0.02	0.72	50.00	04.17

xii.	Technology dissemination	2.28	11.46	35.09	88.39
xiii	Service to stakeholders	2.16	15.18	64.81	76.61
xiv.	Research management	7.34	14.80	70.44	125.88
xv.	Internal Service and Maintenance	30.81	181.35	67.22	102.97
	Total	80.00	291.00	64.76	100.30

- (b) A special Project was launched to popularize tea harvesting and pruning machines among the Tea Small Holders and a sum of Rs. 100 million had been approved by the Government for this purpose. This was initiated by the Board in collaboration with the Tea Small Holdings Development Authority, Federation of Tea Small Holders, Private Tea Factory Owners Association and Sri Lanka Tea Board under the direction of the Ministry. The initial allocation of Rs. 20 million had been received in latter part of the year 2013 and out of that a sum of Rs.2.5 only had been utilized for this programme.

4.2 Assets Management

The following observations are made.

- (a) Out of the total land to the extent of 143.810 hectares at the St. Joachim Estate 17.675 hectares had been encroached by external parties over a long period and they had constructed permanent houses and cultivated paddy, tea, coconut and other crops etc. Therefore, the Estate had been loosing income from encroached lands and no action had been taken reacquire the lands up to 31 March 2014.

The Chairman of the Board had informed me on 01 September 2014 that, out of 17.675 ha. an extent of 8.74 ha. of paddy fields had been given to 35 tenant cultivators prior to acquisition of St.Joachim to Tea Research Institute in the year 1963. The balance land had been encroached. The Estate has taken action to obtain the land lord share of tenant cultivation through Govi Janaseva Center of Ratnapura. The Estate has taken action against encroaches. Those encroachments were taken placed more than 25 years ago.

- (b) It was observed in audit that 38 Staff Quarters out of 165 were idling more than five years up to the end of the year under review.

4.3 Utilization of Funds

The following observations are made.

- (a) Although a sum of Rs. 6,000,000 had been given by the General Treasury in October 2013 for improvement of living condition of the workers of the Tea Research Institute. However the activities related to the programme had not been commenced even up to the date of audit inspection carried out on 23 April 2014 and only Rs.261,680 were included in the works in progress as at the end of the year under review as consultation and advertising expenses under this programme..

- (b) According to the procurement plan for the year under review, the activities of the construction of C type Quarters at Deniyaya, renovation of office building and construction of Twin Quarters at Kottawa, construction of labour rest rooms and toilet at Thalawakalle and water supply of Passara had not been implemented as per the plan even up to date of audit on 31 May 2014 though the funds amounting to Rs. 9,321,000 were provided by the Treasury.

4.4 Project Management

The following observations are made.

- (a) Out of the funds received from Methyl Bromide Project (MEBR Project) for soil research activities amounting to Rs.9,608,720 during the period from 2007 to 2008, only a sum of Rs.8,179,693 had been spent up to the end of the year under review. Therefore, a sum of Rs.1,429,059 had not been utilized though the Project period was elapsed on 30 March 2010 as per the Project Agreement. The progress of the Project were not furnished for audit.
- (b) No any activities had been carried out during the year under review although the funds balance amounting to Rs. 187,452 remaining under the Project on Tea Factory Studies.

4.5 Staff Administration

The following observations are made.

- (a) According to the information made available, approved cadre and the actual cadre of the Board as at 31 December 2013 was 443 and 236 respectively. There were 207 vacancies including 04 Deputy Directors, 05 Head of Divisions and 14 Principal Research Officers. Action had not been taken by the Board to fill those vacancies since 2011.
- (b) The approved and actual cadre of St. Coombs and St. Jochim Estates, those who are working under the Collective Agreement, were 42 and 31 respectively.
- (c) An allowance of Rs.3,000 per month had been paid to 06 Officers In Charge without being obtained the approvals from the Treasury. It was further observed that the post of Officer In Charge was not included in the cadre of the Board.
- (d) The Board of Directors had approved on 24 May 2007 to reimburse a monthly labour allowance to the Director, Deputy Directors and Officers In Charge of Regional Offices to maintain their official staff quarters. However this allowance had been calculated based on the labour wages including production bonus, over time attendance bonus etc. and it was observed in audit that an amount totalling to Rs.2,717,945 had been reimbursed by the Board during the year without an approval from the line Ministry and the Treasury. The Chairman of the Board had informed me on 01 September 2014, if the approval of the Ministry and Treasury is not given, this payment will be stopped from 1st January 2015".
- (e) It was observed that the following privileges had been given to the staff of the Board as per the Manual of Administrative Procedure of 1995 than the other similar Research Institutions.

(i) Leave

	<u>casual</u>	<u>Vacation</u>	<u>Medical</u>	<u>Total</u>
Senior Grade	11	22	30	63
Junior Grade	05 1/2	22	30	57 1/2
Minor Grade	05 1/2	16 1/2	30	52

(ii) Electricity Quota for Staff occupied in the quarters in Thalawakale and sub stations

Grade I	300 units
Grade II	225 units
Grade III- V	150 units
Grade VI	100 units

Action had not been taken to regulate the Manual of Administrative Procedure of the Board to suite the present rules and regulations applicable for the similar Organizations.

In this connection, the Chairman of the Board had informed me on 01 September 2014 that the Board has already taken actions to appoint a committee to revise TRI Manual as per the existing circulars in order to make necessary amendments/corrections and MOP is revised accordingly.

- (f) According to the information made available, a sum of Rs.27,090,600 had not been recovered from 10 officers who had obtained study leave with full pay and failed to serve the compulsory periods of service. It was observed in audit that a sum of Rs.1,031,668 was included in the gratuity provision relating those officers for the period which they were employed.
- (g) A court case had been filed by the Labour Commissioner against the Board in 2008 due to the negligence of the decision of the labour tribunal publish in special gazette notification on 26 June 2008 regarding a promotion and permanent of the post of two employees those who were working at St. Joachim Estate . It was observed in audit that the Board had proceeded the case without come to a settlement and a sum of Rs. 902,000 had been paid to private lawyers up to the end of the year under review. However, the case had been withdrawn by the Board in February 2013 and paid sums of Rs. 110,393 and Rs.73,676 in 2013 and 2014 respectively as arrears of increments to those employees.

4.6 Utilization of Motor Vehicles

- (a) Six vehicles belonging to the Board had met with an accidents in 07 occasions during the year under review. However, these had not been reported to Auditor General as per the Financial Regulations 104(2),(3),(4) and the repairing cost had been exceeded by Rs. 76,240 than that the reimbursements made by the insurer.
- (b) Six vehicles were still in the name of the Director General of the Sri Lanka Tea Board without being transferred to the Board.

5. Budgetary Control

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

6. Systems and Controls

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

- (a) Accounting
- (b) Payment and Settlement of Advances
- (c) Assets Management
- (d) Receivables and Payables
- (e) Factory Management