

## **Sri Lanka State Plantation Corporation – 2014**

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The audit of operating activities of the Sri Lanka State Plantation Corporation for the year ended 31 December 2014, 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. The financial statements for the year 2014 that should be presented in terms of Section 13(6) of the Finance Act had not been furnished even by the date of this report. My observations in respect of the operations of the Corporation of the year under review, which I consider should be presented to Parliament in terms of the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The Management is responsible for the preparation and fair presentation of the financial statements of the Corporation 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.

## **2. Financial Statements**

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### **2.1 Presentation of Financial Statements**

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Even though the financial statements and the draft Annual Report should be furnished to the Auditor General within 60 days after close of the year of accounts in terms of Section 6.5.1 of the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises, the financial statements and draft Annual Report for the year 2014 had not been presented to the Auditor General even by 09 September 2016.

### **2.2 Maintenance of Books of Account and Registers**

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Even though the activities of the Corporation had been continuously maintained, Books of Account and Registers relating to the year under review had not been completed.

### **2.3 Existence of Assets and Liabilities**

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Details on assets, liabilities, income and expenditure stated in the last financial statements as at 31 December 2013 prepared by the Corporation are given below.

Assets -----	Value -----
	Rs.
Non-current Assets	5,805,009,280
Current Assets	<u>161,866,142</u>
Total Assets	<u>5,966,875,422</u>
 <b><u>Liabilities</u></b>	
Current Liabilities	1,179,046,151
Non-current Liabilities	<u>233,890,743</u>
Total Liabilities	1,412,936,894
Net Assets/Title	<u>4,553,938,528</u>
Total Liabilities	<u>5,966,875,422</u>
Total Income	655,699,345
Total Expenditure	<u>873,483,759</u>
Deficit	<u>217,784,414</u>

#### 2.4 Lack of Documentary Evidence for Audit

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Evidence indicated against the following items had not been made available to Audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
Expenditure on Fuel	114,069	Bills and Daily Running Charts
Expenditure on Stationery	305,299	Bills
Labour Charges	705,010	Agreement relating to providing Labourers

#### 2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliances -----
(a) Section 1 of the Chapter XXVIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	A sum of Rs.43,608 had been paid as salaries from July to August of the year under review to an officer without confirming the arrival and departure and without obtaining the service properly.

- (b) Section 7.1 of the Chapter V of the Establishments Code of the Democratic Socialist Republic of Sri Lanka  
Even though an Estate Superintendent had not reported for duty without approving leave from 30 September of the year under review, action in terms of the Establishments Code had not been taken.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  
Financial Regulation 137  
Cheques valued at Rs.14,298,894 had been written without the approval for payments.
- (d) Public Administration Circular No.22/99 of 08 October 1999 and the Public Enterprises Circular No.PED 39 of 09 October 2006  
A motor vehicle had been given for a personal purpose for 05 months of the year under review to an officer who is not entitled for an official motor vehicle.

### 3. Operating Review

#### 3.1 Performance

The following observations are made.

- (a) The yield of Made Tea per Hectare of the year 2013 and the year under review relating to 12 Estates maintained by the Corporation is given below.

Estate	Land Extent in Hectares	Yield of Made Tea per Hectare		
		2014 Kilogrammes	2013 Kilogrammes	Difference Kilogrammes
Opalgalla	104	633	854	(221)
Galpeella	235	629	821	(192)
Goomera	165	671	723	(52)
Rangalla	215	549	700	(151)
Hagalla	252	596	693	(97)
Kellebokka	583	506	662	(156)
Hunnasgiriya	207	469	608	(139)
Allakolla	338	499	572	(73)
Midland	259	448	529	(81)
Hare Park	204	274	351	(77)
Cottaganga	185	228	301	(73)
Nikolaoya	92	381	451	(70)
	2,839	5,883	7,265	1,382

The following observations are made in this connection.

- (a) Even though the average standard Made Tea yield per Hectare was approximately 1736.5 kilogrammes, according to the data of the year under review, that value ranged from 228 kilogrammes to 671 kilogrammes and the yield of Made Tea of all Estates per hectare had decreased by 19 per cent in the year under review as compared with the year 2013.
- (b) The Made Tea production of the Corporation during the year 2013 had been approximately 1,762,301 kilogrammes and it had been 1,402,229 kilogrammes in the year under review. As such, tea production had dropped by 360,072 kilogrammes representing 20 per cent as compared with the preceding year.
- (c) Even though the standard quantity of Made Tea that should be annually produced by 2,839 Hectares, the extent of lands in which tea had been cultivated, of the Corporation should be 4,926,451 kilogrammes, out of that, only 1,402,229 kilogrammes or 28 per cent had been produced in the year under review.
- (d) The information on the extent of lands provided to the external planters and the Made Tea production obtained in 2013 and in the year under review is given below.

Name of the Estate	2014		2013	
	Extent of Land (Hectares)	Made Tea Product (kilogrammes)	Extent of Land (Hectares)	Made Tea Product (kilogrammes)
Allakolla	56	6,765	56	8,584
Cottaganga	267	26,974	267	34,161
Goomera	76	12,633	69	8,040
Hagalla	134	17,662	134	13,691
Hare Park	144	32,529	144	38,935
Hunnasgiriya	17	1,960	17	3,855
Kellebokka	128	15,282	112	16,594
Midland	27	3,030	27	2,650
Nikolaoya	40	2,090	40	439
Opalgalla	52	1,717	52	1,350
Rangalla	110	31,957	110	37,339
<b>Total</b>	<b><u>1,051</u></b>	<b><u>152,599</u></b>	<b><u>1,028</u></b>	<b><u>165,638</u></b>

The following observations are made.

- (i) The production had decreased by 13,039 kilogrammes or by 8 per cent due to the Made Tea production in the year under review being 152,599 kilogrammes as compared with the Made Tea production of 165,638 kilogrammes relating to the raw tea leaves supplied in the year 2013 by the external planters.

(ii) Even though the Standard quantity of Made Tea that should be annually produced by the extent of 1051 Hectares of land belonging to the Corporation maintained by the external planters should have been 1,826,798 kilogrammes, only 8 per cent of that had been produced by the external parties.

(e) Production Targets and Performance of the Estates are given below.

Name of the Estate	2014		Target Achieved	2013	
	Estimated Production	Actual Production		Estimated Production	Actual Production
	(kilogrammes)	(kilogrammes)	%	(kilogrammes)	(kilogrammes)
Allakolla	320,000	168,836	53	250,000	193,647
Cottaganga	60,000	42,009	70	60,000	55,542
Galpeella	240,000	148,581	62	243,000	193,569
Goomera	150,000	110,132	73	153,000	123,390
Hagalla	250,000	150,111	60	230,000	175,972
Hare park	75,000	55,821	74	75,000	71,532
Hunnasgiriya	175,000	97,148	56	190,000	112,754
Kellebokka	539,640	294,625	55	540,000	396,854
Midland	201,000	116,075	58	222,470	191,841
Nikolaoya	64,000	35,110	55	12,000	7,916
Opalgalla	100,000	65,790	66	100,000	88,821
Rangalla	200,000	117,991	59	210,000	150,463
<b>Total</b>	<b><u>2,374,640</u></b>	<b><u>1,402,229</u></b>	<b><u>59</u></b>	<b><u>2,285,470</u></b>	<b><u>1,762,301</u></b>

The following observations are made.

- (i) Out of the targets given to each Estate for the year under review, except for three Estates, the performance of all remaining Estates remained at the level from 53 per cent to 66 per cent.
- (ii) Although even a single Estate could not reach the targeted production of Made Tea given to each estate during the year 2013 by the Corporation, a high target had been given in the year under review as compared with the preceding year without a proper study thereon.
- (f) The Cost of Production (COP) and the Normal Sales Average (NSA) per one kilogramme of tea in the year 2013 and in the year under review are as follows.

Name of the Estate	Cost of Production	2014		Contribution	Cost of Production	2014	
		Normal Sales Value	Normal Sales Value			Normal Sales Value	Contribution
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Alakolla	345	270	(75)	332	241	(91)	
Cottaganga	659	287	(372)	527	248	(279)	
Galpeella	317	269	(48)	359	268	(91)	
Gomera	355	265	(90)	416	296	(120)	
Hagalla	353	284	(69)	348	277	(71)	
Hare Park	410	264	(146)	365	227	(138)	
Hunnasgiriya	408	267	(141)	423	267	(156)	
Kellebokka	536	311	(225)	445	280	(165)	
Midland	507	328	(179)	418	300	(118)	
Nikolaoya	442	327	(115)	533	393	(140)	
Opalgalla	349	332	(17)	322	305	(17)	
Rangalla	461	277	(184)	442	285	(157)	

According to the Table above, there was a production cost exceeding the Average Sales Price per kilogramme of tea of every Estate of the Corporation.

- (f) The average price per kilogramme of tea decided at the Auction of 05 private factories in the zone belonging to the Matale and Kandy Districts where the Estates are located, had been Rs.555 and the average price of factories of the Corporation had been Rs.323 of the year under review. Poor quality of the leaves harvested, standard of the machineries existed in Factories and the management weaknesses had been the main reasons for the decrease in the price.

### 3.2 Management Activities

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The following observations are made.

- (a) Even though the gratuity payable amounting to Rs.1,970,172 that existed at the vesting of the Walahanduwa Estate in the Corporation by the Tea Shakthi Fund, had been completely paid by the Corporation, the Management had not taken action to recover that amount from the Tea Shakthi Fund.
- (b) Even though tea leaves of the Walahanduwa Estate had been provided to the Madola Tea Factory by the Corporation in the year under review, an agreement had not been entered into between two parties.

### **3.3.1 Operating Activities**

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Even though sums of Rs.15,468,811 and Rs.2,351,908 had been spent for minor export crop plantations commenced in 98.5 Hectares of the Opalgalla and Midland Estates respectively from the year 2011 to the year 2013 by the Corporation, those projects had been abandoned in the year under review.

### **3.4 Staff Administration**

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Action had not been taken to obtain the approval of the Department of Management Services for the staff and the Scheme of Recruitment of the Corporation.

### **3.5 Idle and Underutilized Assets**

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The Goomera Factory had remained idle from January 2014 due to non-maintenance of machineries properly and manufacturing activities of the Rangalla Tea Factory could not be continuously carried out in the year under review.

### **3.6 Uneconomic Transactions**

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Nine officers of the Midland Estate had not reported for duty from May to November of the year under review and salaries of Rs.1,377,462 had been paid to those officers for the above period.

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

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### **4.1 Internal Audit**

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Even though plans had been made to cover 14 Estates, the Regional Office and all Divisions of the Head Office according to the Annual Internal Audit Plan, out of that, only 4 Estates had been inspected and checking of vouchers of the Head Office had been carried out. As such, the Internal Audit Unit had not taken action to achieve its planned targets.

## **5. Systems and Controls**

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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.

**Areas of Systems and Controls**

**Observations**

(a) Maintenance of Registers	Non-maintenance of source Registers properly.
(b) Budgetary Control	Supervision of achieving the budgeted targets is at a low level and non- use of technical tools and processes relating to the improvement of the performance.
(c) Staff Management	Non-segregation of duties among employees properly, non-maintenance of Register of Arrival and non-use of field chits continuously.
(d) Internal Audit	Failure to implement the Internal Audit Plan as expected.
(e) Accounting	Non-maintenance of Ledger Accounts for the Ingiriya Estate.
(f) Agreements Control	Failure in entering into agreements in respect of sale of tea leaves.