

## **Janatha Estate Development Board - 2015**

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The audit of the operations of the Janatha Estate Development Board for the year ended 31 December 2015 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. Financial statements for the year 2015 to be furnished in terms of Section 13(6) of the Finance Act, had not been presented even by the date of this report. My observations on the operations of the Board for the year under review which I consider should be presented before the Parliament in terms of 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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Management is responsible for the preparation and fair presentation of the financial statements of the Board 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.

## **2. Financial Statements**

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

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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements, and the draft annual report should be furnished to the Auditor General within 60 days from the close of the year of Accounts. However, financial statements and the draft annual report for the year 2015 had not been furnished to audit even by the date of this report.

### **2.2 Maintenance of, Books of Accounts, and Registers**

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Although the operations of the Board had been continued, the accounts, books and registers had not been completed.

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

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Particulars relating to the assets, liabilities, income and expenditure shown in the financial statements last prepared by the Board as at 31 December 2014, are as follows.

Assets	Value Rs.
Non-current Assets	2,197,604,850
Current Assets	<u>613,783,717</u>
Total Assets	<u>2,811,388,567</u>
<u>Liabilities</u>	
Current Liabilities	2,167,051,875
Non-current Liabilities	<u>1,093,267,215</u>
Total Liabilities	3,260,319,090
Net Assets / Ownership	<u>(448,930,523)</u>
Total Liabilities	<u>2,811,388,567</u>
Total Income	1,040,811,290
Total Expenditure	<u>1,209,653,957</u>
Deficit	<u>168,842,667</u>

#### 2.4 **Non-compliances with Laws, Rules, Regulations, and Management Decisions**

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The following instances of non-compliance were observed.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a.) Section 18 of the State Agricultural Corporations Act, No.11 of 1972	Action had not been taken after August 2012 to make a permanent appointment to the post of General Manager, a permanent post of the Board.
(b.) Section 10	Despite the unavailability of provisions in the Act to appoint a Working Director and an Executive Director, Directors had been appointed to those posts and paid a sum of Rs. 1,738,083 as salaries and allowances in the year under review.
(c.) Public Enterprises Circulars. Paragraph 3.5 of the Circular, No. PED/1/2015, dated 25 May 2015.	Payments amounting to Rs. 112,290 had been paid without approval to the General Manager for 1,182 liters of additional fuel in excess of the approved limit of fuel.
(d.) Circular, No. 21 dated 08 January 2004.	A sum of Rs. 131,079 had been paid contrary to provisions of the Circulars for the expenses incurred on the festivals of the Ministry of Plantations.

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| (e.) Public Finance Circular, No. 428, dated 28 May 2008, and Financial Regulation 371 (2)                             | <p>(i) The limit authorized on the Petty Cash Sub-Imprest had been increased up to Rs. 100,000 only on the approval of the Board of Directors and without approval of the Treasury.</p> <p>(ii) In terms of Circulars, the maximum amount payable by Petty Cash amounts to Rs. 1,000. Nevertheless, payments had been made to settle bills totalling Rs. 85,227 in 29 instances without obtaining approval to exceed that limit.</p> |
| (f.) Paragraphs 02 and 3.2 of the Management Services Circular, No 5/2014 dated 21 November 2014.                      | Bonus amounting to Rs. 222,600 had been paid without concurrence of the Board of Directors and the Treasury.   |
| (g.) Paragraphs 7 and 11 of the Circular, No. SAI/A/4/34 of the Secretary to the President, dated 21 July 2014.        | Without following the open bidding procedure, the Bopitiya Tea Factory had been leased out for a period of 33 years without assessment reports of the Government Valuer at Rs. 1,200,000 per annum.  |
| (h.) Financial Regulations 136, and 137 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | Every transaction should be authorized and approved by an authorizing officer, but payments valued at Rs. 828,463 had been made in 11 instances without such and approve.  |

### **3. Operating Review**

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#### **3.1 Performance**

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##### **3.1.1 Tea Cultivation**

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The following observations are made.

- (a) The Cost of Production per Kilogram of made tea , the Average Value of Sales, and the Contribution in respect of the year under review and 02 preceding years, are as follows.

Estate	Cost of Production			Average Value of Sale			Contribution per Kilogram.		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bopitiya	542	555	610	269	265	210	(273)	(290)	(400)
Bowhill	614	473	582	236	254	261	(378)	(219)	(321)
Delthota	548	467	313	281	273	210	(267)	(194)	(103)
Galaboda	599	550	614	252	271	265	(347)	(279)	(349)
Great Valley	743	632	637	269	326	211	(474)	(306)	(426)
Hanthana	536	499	371	254	269	227	(282)	(230)	(144)
Hope	481	508	390	290	403	589	(191)	(105)	199
Kandaloya	652	726	451	283	425	211	(369)	(301)	(240)
Kolapathana	383	358	350	249	267	255	(134)	(91)	(95)
Llewolyn	453	456	348	265	314	434	(188)	(142)	86
Lookandura	404	406	325	274	321	460	(130)	(85)	135
Mahawila	468	483	287	253	255	267	(215)	(228)	(20)
Rahathungoda	509	444	320	299	303	183	(210)	(141)	(137)
Rockwood	415	377	325	293	278	203	(122)	(99)	(122)
Nagasthenna	689	763	430	282	333	710	(407)	(430)	280
Galaha	-	-	626	-	-	260	-	-	(366)
Mount Gene	582	477	-	276	319	-	(306)	(158)	-

(b) In comparing the Cost of Production per Kilogram of tea , Net Sale Average and Contribution per Unit since the year 2014 up the year under review, the contribution per Kilogram of tea in respect of 17 estates had been a negative value ranging from Rs. 20 to Rs. 474. Accordingly, the income from the sale of a unit of production of the Board could not cover the cost thereof.

(c) According to the standards of the Tea Research Institute, the average yield of made tea per hectare of Medarata tea had been about 1200 Kilogram. The average yield of made tea per hectare of the estates belonging to the Board in respect of the period from the year under review to the year 2006, had been as follows.

<u>Estate</u>	<u>Year</u>									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	Kg									
Bopitiya	350	333	345	330	415	488	438	454	481	542
Browhill	446	520	595	674	707	593	506	690	570	606
Delthota	342	332	435	453	428	480	481	605	574	571
Galaha	-	-	274	198	-	-	234	333	302	266
Galaboda	367	332	390	425	362	425	293	375	325	325
Great Valley	215	235	228	260	334	363	412	555	361	347
Hanthana	344	342	441	325	387	355	356	489	475	512
Hope	552	592	667	672	557	693	645	728	578	659
Kandaloya	431	482	647	689	691	549	487	529	446	460
Kolapathana	684	805	963	1008	1016	939	750	956	706	782
Llewolyn	552	607	643	700	738	615	611	755	647	627
Llookandura	674	645	739	830	697	800	736	1013	870	781
Mahawila	641	744	857	899	743	619	656	1024	839	793
Rahathungoda	422	450	582	527	517	586	325	709	680	582
Rockwood	510	593	612	622	575	668	580	666	550	501
Nagasthenna	471	433	540	563	515	418	-	-	-	-
Mount Gene	376	-	-	-	-	-	-	-	-	-

According to the standards of the Tea Research Institute, the average yield of Medarata tea per hectare had been 1200 Kilograms. However, the yield of all the estates belonging to the Board for the period from the year 2006 up to the year under review had remained lower.

- (d.) According to the requirements of fertilizer for the year under review, the estimated expenditure on fertilizer for 16 estates, amounted to Rs. 43,936,405, but no fertilizer had been purchased. As the quality of tea leaves had dropped due to failure in applying the required amount of fertilizer in a timely manner, there was the risk of a decline in the demand for made tea.
- (e.) A comparison of the yield of estimated raw tea leaves with the actual yield, is as follows.

Estate	Estimated Yield of	Actual Yield of	Progress in
	Raw Tea Leaves	Raw Tea Leaves	Achieving the
	Kg.	Kg.	Targets.
			%
Bopitya	282,600	157,400	56
Bowhill	450,000	43,217	10
Delthota	600,000	332,061	55
Galaboda	329,500	211,407	64
Great Valley	272,600	152,203	55
Hanthana / Galaha	1,434,800	795,050	55
Hope	1,174,700	845,015	71
Kandal Oya	473,100	258,388	54
Kolapathana	908,700	512,883	56
Llewelyn	2,476,000	1,422,223	57
Lookandura	1,667,000	1,375,575	82
Mahavila	565,200	323,454	57
Nagasthenna	348,000	240,578	69
Rahathungoda	711,100	425,000	60
Rockwood	1,030,800	745,394	72

The percentage of achieving the estimated target of production in respect of 09 of the 15 estates belonging to the Board, had remained at a very low level and ranged between 10 – 60 per cent. Failure to accurately estimate the production had been the main reason thereto.

### 3.1.2 Rubber Cultivation

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The following observations are made.

- (a) Rubber had been cultivated only on an area of 579 hectares equivalent to 31.76 per cent of the total extent of the land belonging to the Kumarawatta Estate. Of the cultivation, about 70 per cent had been matured rubber trees. Furthermore, the estimated number of plants that should exist in that matured rubber cultivation had been 204,225, but the number of plants therein had been 102,375 or 50 per cent. Although there should have been 85,165 estimated plants in the 30 per cent area of immature rubber trees, there had been 62,004 plants indicating 73 per cent.
- (b) Although 1,247 kilograms trees of dry rubber had been in average produced per hectare, 570 kilograms of dry rubber had been produced by the Kumaragewatta Estate in the year 2014, and that had been as low as 363 kilograms during the first 06 months of the year under review.
- (c) As the number of trees being tapped and the number of trees that could not be tapped due to various reasons, had not been separately identified, it could not be satisfied in audit as to whether a fair volume of latex had been collected from each block of rubber.

### 3.2 Management Activities

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The following observations are made.

- (a) Lease of Lands.
  - (i) Decisions of the Board of Directors were not observed in respect of leasing out 37 properties belonging to the Board. The said properties had been leased out without obtaining assessment reports and following open bidding procedure.
  - (ii) The invoices had not been properly issued to the lessees by the Board during the specified period of lease. The lease rent in arrears in respect of 20 estates by the end of the year under review amounted to Rs. 55,089,171.
  - (iii) The lease period of the properties, Wathuruvila Watta, and Somisanda Watta, had elapsed by January of the year under review. Nevertheless, the said properties had been used by the lessees even up to 31 December of the year under review, and the Board had not taken action to recover the properties.
  - (iv) Two parts of the stores complex of the Board situated on the Vauxhall Street, Colombo had been leased out in the years 2013, and 2014. Due to failure in leasing out again or recovery of the property at the termination of the period of lease, the lessee had filed a case against the Board for acquiring the property. Expenses amounting to Rs. 180,000 had been incurred on legal proceedings relating to the said property that had not generated income.
- (b) An officer who had been interdicted, had taken away the vehicle used by him, and the vehicle had been handed over after a period of 05 months. The Board had not taken action to conduct inquiries and identify the officers responsible and lease taking disciplinary action.
- (c) Three hundred and twenty one acres of land belonging to the Kumarawatta Estate had been encroached by 175 persons from the year 1981. Notwithstanding the eviction notices given by the Board to 11 of them in the year 2009, action had not been taken even up to 12 November of the year under review to evict them.
- (d) The lease period of the Tea Sale Center at Kumarawatta Estate that had been leased out for a period of one year without a decision of the Board of Directors, and without an assessment report, had elapsed as at 31 December 2013. Nevertheless, the lessee had not left the premises even by 11 November of the year under review, and action had not been taken to recover the arrears of lease rent and the penalty amounting to Rs. 1,360,000 recoverable up to then.

- (e) Consequent upon the verdict of a case filed against the Board by an officer and an employee whose services had been terminated by the Board on various grounds, the compensation ordered to be paid to them amounted to Rs. 1,364,934. This compensation had to be paid by the Board due to failure in defending at the trial the grounds on which the services of the said employees had been terminated.

### 3.3 Operating Activities

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The following observations are made.

- (a) Out of the 13 factories belonging to the Board, 07 remained non-functional, whilst 02 factories had been leased out. Although the total production capacity of the other 04 factories where made tea had been produced, had been 38,000 kilograms of tea leaves per day, the average receipt of tea leaves for production had been less than 26,054 kilograms per day. Despite the underutilization of factories in such a manner, 1,227,226 kilograms of tea leaves had been sold to external parties in the year under review.
- (b) According to the Information System maintained by the Kumarawatta Estate, 12,497 kilograms of dry latex had been produced in October, 2015, whereas it had been 17,646 kilograms according to the computations of the auditor thus understating 5,149 kilograms. This understatement had been caused as a value less than the standard rate for the composition of dry rubber had been entered into the information system. As such, it was observed in audit that irregularities could occur due to that reason.
- (c) The volume of latex collected on the day of audit at the Kumarawatta Estate had been 794 liters. The average volume of latex collected by a single employee on that day had been 33 liters. However, during other days, that volume had been 18 liters, but no remedial action had been taken by identifying the reasons causing such decrease.
- (d) In comparing the average sale price of the stocks of made tea with the average prices of the region issued by the Tea Board monthly, a Kilogram of made tea of the Board had been sold with an unfavourable price variation ranging from Rs. 42.98 to Rs. 153.08. Accordingly, due to lack of quality that prevented the made tea of the Board from reaching the average price of the region, an estimated sales income amounting to Rs. 11,112,740 had been deprived of per month.
- (e) Due to reasons such as, failure in harvesting the sugar cane cultivation of 16 Hectares at the Kumarawatta Estate within the specified period, and rotting 13 Tons of sugar cane in the field, an estimated loss of Rs. 2,160,000 had been sustained during the year under review. As the sugar cane cultivation of 04 Hectares had become unsuccessful in the year 2013, a loss of Rs. 279,097 had been sustained as well.

### 3.4 **Identified Losses**

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A loss of Rs. 766,110 had been sustained during the year under review as a price less than the fair price of the Tea Commissioner had been paid by a buyer of raw tea leaves for the leaves purchased from the Board.

### 3.5 **Staff Administration**

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Despite the verdict delivered by the Supreme Court on a case filed by Estate Superintendent retired by the Board at the age of 55 years that the retirement as legal, after the lapse of 02 years the then chairman had at his discretion extended the post of state superintendent up to 60 years and appointed him as the acting general manager after 8 months. Furthermore, contrary to the Public Enterprises Circular, dated 15 January 2013, his service had further been extended for 06 months after completion of 60 years of age on a decision of the Board of Directors without approval of the Cabinet. Accordingly, it was observed that the salaries and allowances paid in respect of the Appointment made contrary to Law, totalled Rs. 3,907,266.

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

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### 4.1 **Corporate Plan**

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According to Paragraph 05 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, a Corporate Plan should have been prepared for a period of not less than 03 years in order to accomplish the vision and mission of the Board, but a Corporate Plan had not been prepared after the year 2013.

### 4.2 **Action Plan**

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An Action Plan had not been prepared for the year 2015 in accordance with the Public Finance Circular, No. 01/2014, dated 17 February 2014.

### 4.3 **Internal Audit**

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An Internal Audit Unit comprising 03 officers, functions. Even though the Annual Internal Audit Plan expected to cover 18 main Estates along with 07 Divisions of the Head Office, those activities had not been completed within the year, and reports had been furnished by conducting field inspections on 04 Estates that had been leased out.

### 4.4 **Audit Committee**

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According to Section 7.4.1 of the Public Enterprises Circular, No. 12, dated 02 June 2003, the Audit Committee should be held at least once in three months. However, only 02 sessions had been held for the year under review.

#### 4.5 Procurement Plan

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A Procurement Plan had not been prepared for the year 2015 in accordance with Section 4.2 of the Government Procurement Guidelines – 2006.

#### 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 Board from time to time. Special attention should be paid to the following areas of control.

##### Areas of Systems and Controls

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##### Observations

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|--------------------------|----|---|
| a. Maintenance Registers | of | Failure to maintain source documents properly.  |
| b. Budgetary Control     |    | Supervision on the achievement of budgeted targets had been at a low level, and the failure to utilize the technological tools and processes in promoting performance.                                    |
| c. Staff Management      |    | Recruitment of employees in excess of the approved cadre, granting promotions and extending service contrary to laws, and rules, failure to properly assign responsibilities and duties to the employees. |
| d. Internal Audit        |    | Failure to execute the Internal Audit Plan as expected.   |