

Tea Research Board - 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tea Research Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's Responsibility in Auditing Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the Governing Body of the Board ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Despite the cost of two vehicles which sold during the year under review cost at Rs. 828,174 had been removed from the and the fixed assets account, the cost was credited to the fixed assets account again, and as debited to the revaluation account, the balance of the fixed asset account and the revaluation account had been understated by that account.</p>	<p>The vehicles sold during the year under review were fully depreciated vehicles and the relevant costs and accumulated depreciation has been accurately specified in Ledger No. 24 Fixed Assets Sales Account, the profit / loss on the sale of these vehicles have been added to the capital reserve account of during the 2014 revaluation process.</p>	<p>The offense that had occurred when accounting for asset revaluation, the net value of the assets and the profit / loss of the disposal of the assets should be accurately adjusted in the financial statements by adjusting at once at the instance of removal of assets..</p>
<p>(b) A sum of Rs. 56,468,072 received from the Ministry of Plantation Industries and other external agencies the net amount of Rs.30,171,456 had been shown reducing the cost incurred amounting Rs. 26,296,616 as cash outflow under investment activities instead of showing up under the financial activities of the cash</p>	<p>Although the funds received for various projects in the year 2018 and payments made under those projects are recorded separately in our Ledger Accounts, the shortcoming of reporting net value</p>	<p>Measures should be made to show the cash inflows and cash flows separately in the cash flow statement in accordance with the Public Sector Accounting Standards.</p>

flow statement. Therefore, the amount received for the project had not been shown in the cash flow statement.

deducting payments from receipts whilst preparation of the cash flow statement of the year 2018 , measures will be taken to show the receipts and payments of the project separately in the preparation of Accounts for the year 2019 .

1.5.2 Lack of Evidence for Audit

The following observations are made.

Subject	Amount Rs.	Lack of Evidence	Comments of the Management	Recommendation
International Standards Certificate (ISO) of St. Coombs Estate	2,381,613	ISO certification and related payment details	The ISO certificate of St. Coombs Estate has not renewed since 2011 and it is advised to take actions in the year 2019 to find the relevant supporting documents.	Actions should be taken to provide written evidences to prove the ownership of the assets appear in the Financial Statement.
Banking of Money of St. Coombs Estate	1,251,493	06 vouchers related banking of money	Payment confirmation documents for Rs.3,762,777 for 56 payment vouchers, were missing and instructions have been given to take actions in the year 2019 to find the documents.	Disciplinary actions should be taken against responsible officers in this regard and action should be taken to keep the basic documents relevant to payment in protective manner.
Salary Advances	1,459,000	11 payment vouchers		
Sundry Expenses	1,052,286	39 payment vouchers		

1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though more than five years had elapsed for the casual employee loan balances receivable amounted to Rs. 937,103 and festival and special advances amounted to Rs. 885,877 at St. Coombs Estate, actions had not been taken to recover them.</p>	<p>Instructions have been made to identify receivable persons and to take actions to recover the casual employee loan balances receivable amounted to Rs. 937,103 and festival and special advances amounted to Rs. 885,877 from them.</p>	<p>Identify the parties involved and take immediate action to recover them.</p>
<p>(b) Even though more than 3 years had elapsed, a sum of Rs. 2,941,232 which had been paid as advances for analytical purposes, actions had not been taken to settle that amount.</p>	<p>Instructions have been given to settle through the final account of the year 2019 for the settlement of cash balances for analytical purposes by adjusting for profit for the previous year as analysis income.</p>	<p>Action should be taken to cover the advances taken to supply services immediately after the completion of task.</p>

1.7 Non-compliance with Laws, Rules and Regulations

References to Non-compliance Laws, Rules, Regulations, etc.	Comments of the Management	Recommendation
<p>(a) Section 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka</p>	<p>Although an acting appointment should be made on a temporary basis until a permanent appointment is made and appointments had been made on a</p>	<p>Even though the newspaper advertisements were published to recruit someone for the post of Senior Accountant, due to the fact that the qualified applicants have not submitted applications for that post, an officer has not been recruited for the post and since the qualifications of this post</p>
		<p>According to the provisions of the Establishments Code, actions should be taken to obtain the approval and recruit immediately.</p>

temporary basis for the post of Senior Accountant of the Board and 04 Heads of Division without a permanent appointment from 3 to 7 years. Further, although there are no Officer In Charge posts (OIC) in the approved cadre 7 officers were appointed to act in such posts and a sum of Rs. 355,483 had been incurred during the year under review as acting allowances.

have been revised as per the model of the Department of Management Services, once it is approved by the Department of Management Services accordingly, the duties of this post should be carried out until an advertisement is published in the newspaper and a suitable person is selected.

The position of Officer-in-Charge (OIC) is not in the approved staff of the Tea Research Institute. However, to manage the administrative and financial activities regularly in the 06 Regional Centers located in many remote areas under the supervision of the Tea Research Institute, the service is obtained from the senior officers attached to the center and since the service is provided in addition to the service of the officers, an allowance is paid with the approval of the Tea Research Board.

Also, without make any change to their salaries according to the work done by these officers, the Board Paper had already sent to approval to name them as Head of Division – Regional Centers.

- (b) Public Enterprises Circular No. PED / 12 of 02 June 2003 Paragraph 9.14
- Although the approval should be obtained to prepare a Procedure Manual relating to Rules for
- Quotations have now been obtained from external parties to develop the Procedure Manual. Arrangements have already been made to award it under the approval of the Procurement Committee and
- The approval should be obtained preparing the Procedure Manual should be promptly.

Human Resource Management and the Secretary to the Treasury, the Board had not act in accordance with that.

- (c) Guidelines 5.4.4 of the National Procurement Agency Circular No. 09 of 01 March 2006
- Although a maximum advance of 30 per cent of the contract amount can be paid on the security for the contracts in accordance with the Guidelines, in contrary to that, a sum of Rs. 670,000 or 50 per cent of the contract value had been paid for a container showroom .
- Only one institution has been offered in relation to this contract. That institution has also demanded 60 per cent of the contract amount. However, it has been advised to minimize the possibility to happen such things in future.
- Advance payments should be made within the approved limits as per the procurement guidelines.

2. Financial Review

The Operating result for the year under review was a deficit of Rs. 63,542,018 and the corresponding deficit was Rs. 5,831,737 in the preceding year. Accordingly, a deterioration of Rs. 57,710,281 was observed in the financial result. Since the revaluations made in the year 2014 brought to accounts in the year under review, the adjustment made relating to the depreciation of three years to the accounts of the year under review had mainly attributed for this.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
Although contributions payable for a particular month must be paid before the end of the following month in terms of the Employees' Trust Fund Act No. 46 of 1980, as a result of not doing so, a sum of Rs. 146,062 had been paid as surcharges.	The Plantation Office has been instructed to make such statutory payments in due time in future.	Officers in relation to the remittance of the contribution should carry out their duties efficiently.

3.2 Identified Losses

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
Due to the lack of proper internal controls on the payments made at St. Coombs Estate, the instances such as authorization, approvals, certification and payment and the tasks of recording the cash book, recording the ledger and preparing the bank reconciliation had not been assigned separately. Because of this weakness a sum of Rs. 9,354,332 had been defrauded during the year under review and the amount that was defrauded had been taken in to accounts as a receivable balance. A disciplinary inquiry is currently being carried out regarding this matter and measures are being made to ascertain the exact amount of the fraud.	The Chief Internal Auditor of the Ministry of Plantation Industries has carried out an inquiry into the unbanked amount of the local tea outlet at St. Coombs Estate and while conducting a formal disciplinary inquiry into the matter, complaints have been made to the Criminal Investigation Department. It is instructed to strengthen internal control and follow up to prevent such incidents in future.	Disciplinary actions should be taken against responsible officers and establish adequate internal controls for financial control and carrying out follow ups.

3.3. Operational Inefficiencies

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
Three researches carried out to test the possibility of reducing soil rehabilitation, which was a problem in the tea plantation sector, had been abandoned on the decisions of Scientific Advisory Committee after incurring a sum of Rs. 5,864,487.	Through these projects, soil carbon content, soil condition and increase water dependence and suppressing diseases like Rhizomes and Poreia, because there are no proper results to be achieved, it was advised to halt by the SAC Committee. These amounts incurred have been deployed in addition to the above projects in parallel activities under the SPND sections.	This is a timely issue which needs serious attention in the field of tea cultivation and the board should take actions to give priority to such researches.

3.4 Idle or Underutilized Properties, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Although, out of the funds received for special projects a sum of Rs. 14,030,854 had been spent to import the Walk in Type Environmental Facility from India on 08 May 2018 and due to not checking before ordering the equipment whether it was up to the desired level of performance and even though one year after receiving to the Board, it was inactive due to unable to be used for research.	Since this instrument did not meet the specifications of the bid that Institution had so far failed to deliver the performance expected by the Tea Research Institute . It has been referred the legal officer of the Ministry of Plantation Industries to take necessary legal action.	The operation of the equipment should be checked before place the order to confirm whether the equipment is up to the desired level and legal actions should be taken in this regard to recover damages.

3.5 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
(a) A container showroom designed to open a tea shop in Nuwara Eliya, for furnishing and installing a septic tank, Rs. 670,000 was paid on 26th February 2018 but the work was not completed until the end of the year under review.	Since the relevant land block could not be released in time to open this tea stall, to recover this amount as determined by the Tea Research Board, appointing a Technical Evaluation Committee (TEC) and as per its recommendation , a Departmental Procurement Committee (DPC) was appointed and the work is being carried out to auction the related processes container to reimburse the expenditure made as determined by the Tea Research Board.	Prior to making procurements for projects it should consider carefully the feasibility of the project.

- (b) The Research for Development of Cost Effective Control Methods for Integrated Management which was implemented to protect the tea plantation from the shot hole borer incurring a sum of Rs. 5,513,743, the research had been suspended since the year 2017 due to the inability to obtain the necessary chemicals. Three projects are launched under this A22 Thrust. They are A 22.1, A 22.2 and A 22.6 . Two projects (A22.2 and A22.6) were launched in the years 2017 and 2018, although there were no activities in A22.1. Attention should be drawn on alternative measures to restart the research.
- (c) The LTP Project which was commenced in the year 2003 had been abandoned after incurring a sum of Rs. 4,142,173 without implementation. The Ministry has requested on several occasions that the balance of accounts relating to the LTP project be removed from the accounts and the Ministry had made a request from the Department of National Budget and after receipt of the approval, actions will be taken to clear the balance of accounts. Prior to incurring the expenses for the project, the relevant approval should be obtained and implemented.