Janatha Estate Development Board - 2021

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Janatha Estate Development Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statements of comprehensive income, statement of changes in equity , cash flow statement for the year then ended and 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 provisions of the National Audit Act No. 19 of 2018, the State Agricultural Corporations Act No. 11 of 1972 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the financial statements of the Board. Because of the significance of the matters described in the Paragraph 1.5 in this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I express disclaimer of opinion 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 responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 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 intends 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 for the Board.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the 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 it 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design 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 the Board to cease to continue as a going concern.

- Evaluate the overall presentation, 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 Board has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
(a)	Although the total land owned by the Board stood at 142,592.27 hectares, including 123,306.37 hectares given on a lease basis, the value of these lands has not been assessed in accordance with Section 34 of Sri Lanka Accounting Standard 40 and recorded under Property, Plant, and Equipment in the financial statements. Furthermore, the Board had not specifically identified 2,872.45 hectares of land even as of 25 March 2025.	The estates belonging to the Janatha Estate Development Board are being surveyed under the supervision of the Line Ministry, and surveying activities for 04 estates totalling 2,803 hectares have been handed over by the Line Ministry to the Survey Department. According to information obtained from the Land Division, these lands have now been surveyed; however, since payments have not been made by the Line Ministry to the Survey Department, the relevant deed reports could not be obtained.	Action should be taken to assess the value of the lands in accordance with the accounting standard and to account for them under Property, Plant, and Equipment in the financial statements, and steps should be taken to identify the lands that have not yet been identified.
(b)	In accordance with Section 51 of Sri Lanka Accounting Standard 16, the residual value and useful life of Property, Plant, and Equipment should be reviewed and revalued at least annually. However, as of the end of the reviewed year, action had not been taken accordingly in respect of fully depreciated Property, Plant, and Equipment worth Rs. 503,460,537 which are still in use.	A committee has been appointed to re-assess the residual value and useful life of these assets, and the Procurement Division has been requested to select valuation officers for the committee. Once this process is completed, the relevant revalued amounts will be recorded in the accounts.	Fully depreciated assets still in use should be revalued and accounted for in accordance with the accounting standard.
(c)	In accordance with Section 55 of Sri	Depreciation for assets purchased by	Action should be

	Lanka Accounting Standard 16 and the Board’s Accounting Policy 3.2.3, depreciation should commence only after an asset is brought to a condition ready for use. However, during the year 2021, fixed assets amounting to Rs. 22,393,425, purchased by the estates and the Head Office, were fully depreciated for the entire year without considering the date of acquisition.	the Head Office in 2022 has been correctly carried out from the date of acquisition, and the depreciation made for the entire year for assets purchased in 2021 has been rectified in 2022. The Estate Division has also been depreciating assets correctly from their respective dates of purchase since 2021.	taken to depreciate assets from the date they are brought to a condition ready for use, in accordance with the accounting standard.
(d)	In accordance with Paragraph 50 of Sri Lanka Accounting Standard 19, the actuarial computation should be used in calculating employee benefit liabilities. However, the Board had calculated such benefits based solely on the basic salary received by each employee at the end of the year.	The Janatha Estate Development Board has been calculating gratuity payments in accordance with the Gratuity Payments Act No. 12 of 1983. It is also noted that the Department of Labour handles matters relating to arrears payment of gratuity under the same Act. Furthermore, at the Audit Management Committee meeting held on 10.06. 2024, it was confirmed that following the Gratuity Payments Act is appropriate. The financial statements for 2020/2021 have also disclosed that action will be taken in accordance with the Gratuity Act as per the policy.	Since the actuarial Method is a more effective method for calculating employee benefits in accordance with the accounting standard, action should be taken to adopt this method.
(e)	According to paragraph 12 of the Sri Lanka Accounting Standard 41, consumable biological assets valued at Rs. 40,769,359 had been carried forward as a fixed value without conducting annual valuations. Further, the updated tree census and valuation reports required to verify this balance had not been submitted for audit. Although the income from the sale of consumable biological assets during the year under review amounted to Rs. 131,963,104, the cost related to the trees sold had not been removed from the assets. In addition, in accordance with paragraph 54(d), depreciation on other biological assets amounting to Rs. 9,052,059 had	The valuation reports for the years 2022, 2023, and 2024 have been obtained from the forest resource division. Accordingly, as disclosed in the accounting records of the 2021 financial statements, necessary adjustments were made through the accounts in 2024. Furthermore, the balance of Rs. 7,216,118 related to biological assets consists of balances continuously carried forward, and steps will be taken to verify their accuracy and take appropriate action in the future. Information relating to clove and coffee cultivations, for which depreciation rates and useful lives had not been disclosed, has	In accordance with the accounting standard, biological assets should be valued, accounted for, and depreciated. The cost of trees sold should be properly removed from the accounts.

not been calculated and accounted for.	been revealed through the accounting records of the 2022 financial statements.	

1.5.2 Accounting Policies

	Audit Observation	Comment of the Management	Recommendation
(a)	The Monte Cristo Estate has been leased to various parties since 2003 and the total value of property, plant, and equipment together with the cost of biological assets about this estate amounted to Rs. 32,168,955 as per the financial statements. However, a fixed asset register had not been maintained, nor had a physical verification of these assets been carried out by the Board. Therefore, the existence and value of these assets could not be confirmed for audit purposes.	As there are no documentary records available relating to the assets of the Monte Cristo Estate, depreciation has not been computed for these assets.	The assets balance shown in the financial statements should be physically verified and confirmed accordingly.
(b)	The value of Rs. 39,287,968 shown under property, plant, and equipment as work in progress included an expenditure of Rs. 5,129,989 consisting of donations and salary payments to a watchman that could not be identified as the work in progress.	Details relating to these works - in - progress items are maintained at the estates, and although the head office has requested such information from the estates, the relevant responses have not yet been received. Therefore, necessary steps will be taken to obtain and analyze the information from the respective estates.	The estates should take actions to properly identify the work in progress at the estates and to remove the unidentified expenditures included therein from the accounts.

1.5.3 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	During the year under review, three tractors obtained under a lease agreement at a total cost of Rs. 6,150,000 should have been recognized in the financial statements for the year 2021 with a lease liability of Rs. 3,101,640. However, since the Board had recognized Rs. 5,452,725, the lease liability had been overstated by Rs. 2,351,085.	Although the balance of the lease creditor account includes both the total interest payable to the lessor and the cost of the asset as per the lease agreement at present, necessary adjustments will be made in the year 2024, In accordance with LKAS 17 on leases.	Action should be taken to correctly recognize lease liabilities in accordance with the accounting standards.
(b)	It was observed that an amount of	This project was completed in	Action should be taken

	Rs. 4,136,733 spent by the Janatha Estate Development Board in 2010 for the purchase of roofing sheets under the estate development project implemented by the Ministry of Plantation Industries had been shown in the financial statements as a trade and other receivable balance, which had remained uncollected for more than ten years. However, no necessary provisions had been made in the financial statements in this regard.	2010, and although the said balance should have been recovered from the institution that implemented the project under the supervision of the Ministry of Plantation Industries, that institution is no longer in operation. Therefore, further inquiries will be made into this matter and appropriate action will be taken accordingly. In addition, steps will be taken to obtain the approval of the Board of Directors in 2025 to establish a policy on bad debts and doubtful debts.	to recover this receivable balance as early as possible, which has remained outstanding for more than ten years.
(c)	By the end of the year under review, crops valued at Rs. 10,000,918 that had exceeded their maturity period had not been transferred to mature crops but continued to be shown under immature crops.	These balances are old balances, and appropriate action will be taken after verifying the physical existence of Rs. 10,000,918 in these immature crop balances and the necessary information.	The maturity periods of the cultivations should be properly identified, and necessary adjustments should be made in the accounts accordingly.
(d)	As at 31 December 2021, the stock balance of Rs. 2,744,595 reported under the Consumer Division included tea stocks valued at Rs. 2,369,453 that were not physically available. Nevertheless, actin had not been taken to remove it from the stock records. In addition, stock balances amounting to Rs. 2,761,476 relating to 11 estates were not physically available, yet they had been accounted for as stock values in the financial statements.	The balance of Rs. 2,369,453 is not the value of the obsolete tea stock in 2019, but is a balance carried forward from previous years. The Consumer Division has informed that these obsolete and near-obsolete tea stocks will be returned to the estates for refiring to make them usable. After undergoing this process, they will be brought back to the Board's head office and sold. However, the Consumer Division has not yet adjusted the price of that stock to this account, and it will be corrected in 2024.	The value of stocks that do not physically exist should be identified and removed from the relevant accounts.
(e)	At the Mulhallkale Estate, the old payable gratuity balance of Rs. 1,067,176 had been deducted from the total payable gratuity balance. Accordingly, the Board's payable gratuity balance had been understated by that value.	The balance sheet relating to the Mulhalakelle Estate shows the gratuity balance payable as a debit value and the institution does not have information regarding this balance. Therefore, steps have been taken to show that balance separately in the balance sheet in 2022.	Information relating to this balance should be collected, and the necessary adjustments should be carried out accordingly.

(f)	Action had not been taken to settle a credit balance of Rs. 4,342,561 and a debit balance of Rs. 1,863,756 shown under suspense accounts since before the year 1996.	The balance of Rs. 4,342,561 relating to these estates and the balance of Rs. 1,863,756 in the suspense account of the Head Office have been carried forward since before 1996, and the relevant information could not be traced.	Action should be taken to settle the balances by identifying the evidence relevant to the suspense account balances.
(g)	Action had not been taken to remove from the financial statements the balance of Rs. 6,013,927 relating to the Onugal Oya Estate, which had been taken over by the Mahaweli Authority and had no physical existence due to submerging to the Mahaweli Project.	The Onugal Oya Estate is a land area taken over by the Mahaweli Authority for the Mahaweli Project, and the fixed assets related to it have no physical existence due to being submerged under the project. According to a copy of a letter provided by the Land Division, it has been confirmed that the Onugal Oya Estate was taken over for the Mahaweli Project, and the relevant assets will be removed from the accounts after further verification of facts.	Assets with no physical existence should be identified and removed from the accounts through appropriate procedures.

1.5.4 Unreconciled control accounts or reports

	Item	Value as per the financial statements	Value as per the correspondi ng reports	Difference	Comment of the Management	Recommendatio n
		Rs.	Rs.	Rs.		
(a)	Balance of loan and interest receivable by the Board from the Sri Lanka State Plantations Corporation	119,318,496	97,709,342	21,609,154	A report summarizing and analysing the loan balance of Rs. 119,318,496 receivable from the Sri Lanka State Plantations Corporation to the Estate Development Board has been submitted by us to the State Plantations Corporation, the Auditor General's Department, and the Ministry Audit	Necessary action should be taken to recover the loan and interest balance receivable from the Sri Lanka State Plantations Corporation to the Board.

					Division. In response to our report, the Sri Lanka State Plantations Corporation has only provided us with copies of ledger accounts belonging to the Estate Development Board as per their accounts, and due to the lack of sufficient information, it has been difficult to verify these accounts.	
(b)	Accumulated Depreciation Opening Balance	901,981,969	898,991,053	2,990,916	This variance has occurred due to the value of the depreciation of Janatha Tea and Palai Estates as at 01.01.2021 not being included in the value indicated in the audit inquiry.	The values in the financial statements should be consistent with the corresponding records.
(c)	Accumulated depreciation closing balance	931,613,515	928,510,156	3,103,359	This variance has occurred due to the value of the depreciation of Janatha Tea and Palai Estates as at 01.01.2021 not being included in the value indicated in the audit inquiry.	The values in the financial statements should be consistent with the corresponding records.
(d)	Tree sales revenue	129,765,958	131,963,104	2,197,146	According to the financial statements referred to in the audit query, the income from tree sales amounted to Rs. 129,765,958.	The values in the financial statements should be consistent with the corresponding

		Accordingly, the difference of Rs. 2,197,145.96 between the balance in the financial statements and that in the Forest Resources Division represents the expenses incurred for trees, which had been deducted by the Accounts Division and presented the income from tree sales in the financial statements.	records.

1.5.5 Going Concern of the Board

Audit Observation	Comment of the Management	Recommendation
Due to continuous losses, as at 31 December 2021, the net assets and working capital of the Board had recorded negative balances of Rs. 1,285,528,242 and Rs. 2,148,404,725 respectively, while the total defaulted statutory payments amounted to Rs. 2,067,043,833. Further, as at the end of the reviewed year, the gratuity provision balance was Rs. 927,760,728, and there was also an outstanding gratuity payable balance of Rs. 636,200,235. No adequate investments had been made to settle these liabilities, and the bank loan balance payable amounted to Rs. 269,540,047. Accordingly, a material uncertainty existed regarding the going concern of the Board. In addition, as disclosed in Note No. 2.4 to the financial statements for the year 2021, the Board of Directors had decided that the institution should be reorganized. However, no such reorganization had been carried out up to the audit date of	The negative value has arisen because the lands, buildings, and other assets owned by the Board have not been properly revalued and brought into the books. If a revaluation of the assets were carried out, the value would become positive. However, such action could not be taken due to the continuous working capital deficiency of the institution. As a result, it has been mentioned that the institution has even been unable to settle the statutory payments stated herein. It was also observed that these outstanding statutory payments had been settled from time to time using funds received annually from the General Treasury. Furthermore, as the reorganization process referred to in Note No. 2.4 to the financial statements for the year 2020 had not been implemented due to political	The lands, buildings, and other assets owned by the Board should be properly revalued and brought into the books, and measures should be taken to overcome the continuous working capital deficiencies of the Board. Further, the Board should be reorganized in accordance with the decision of the Board of Directors.

03 March 2025.	changes, arrangements will be made to remove that note from the 2022 financial statements.

1.5.6 Lack of Documentary Evidence Evidence for Audit

	Item	Amount Rs.	Unfurnished audit evidence	Comment of the Management	Recommendation
(a)	The head office lands, buildings and buildings of the estates, the warehouse offices and the building related to the consumer sector located on Dali Road, other property, plant and equipment and the water supply project implemented in the estates	1,568,000,308	Detailed schedules, deeds of lands, plans, valuation reports, gazette notifications related to land transfers, annual physical verification reports, land extent in square feet, engineering plans, valuation reports, fixed asset registers, feasibility study reports, approvals, years of implementation, vouchers for expenditure certifications, and work done reports	Out of the total value of Rs. 1,503,744,550 reported as lands and buildings of the Head Office, detailed information relating to Rs. 1,489,375,963 has been submitted along with the financial statements for the year ended 31 December 2020. However, detailed information relating to the other properties and buildings could not be found.	Documentary evidence should be properly maintained to confirm the balances of Head Office lands, buildings, and related assets, and action should be taken to verify the accuracy of those balances.
(b)	Work in progress	6,685,165	Payment vouchers, salary payment details, expenditure reports and approvals, approved estimates	It has been informed in writing by the Estate Superintendent of Lulkadura Estate that these projects are no longer in existence, and the information relating to the expenses incurred thereon has not been provided.	The value of the work in progress should be verified through documentary evidence.

(c)	Biological assets - mature cultivation	17,925,652	Tree census reports and reports related to valuation	The matured plantation valued at Rs. 17,295,652 has been transferred to biological assets and corrected in the financial statements for the year 2020. However, these balances have been carried forward in the ledger accounts since before 1996, and the institution does not possess the relevant information reports relating thereto.	The balances should be verified with the relevant reports of the assets, and if the verification cannot be carried out, necessary action should be taken to remove such balances from the accounts through an appropriate accounting procedure.
(d)	Trade and other receivables relating to the head office and estates - adjustment balance, old debtor balance of the consumer sector and receivable withholding tax, plantation development project, value added tax balances and control account balances relating to the assets and liabilities of the leased Monte Cristo estate.	98,827,279	Balance confirmations, settlements after the balance sheet date , age analysis, and actions taken to recover dues	Detailed schedules related to these balances are not available with the Accounts Division. However, necessary action will be taken once the relevant information is received in due course.	Balance confirmations and documentary evidence should be submitted to verify the receivable balances.
(e)	The balance payable for	332,106,721	Balance confirmation	The Mahaweli Development	Action should be taken to

	Mahaweli housing projects and the reserve value of plantation development projects are included in the reserve balance and the unchanged old general reserve value.		documents, work done reports, certified bills, and age analysis	Authority has provided these funds to the Janatha Estate Development Board for the rehabilitation of houses and lands affected by the Mahaweli Project. However, the institution has not utilized these funds for the intended purpose. Further, the Accounts Division does not possess the relevant information, and inquiries have been made from the Lands Division. The necessary adjustments will be carried out once the required information is received.	confirm the balance by identifying the relevant source documents.
(f)	Deposit against Asset Lease balance, advance payments related to the lease of lands and buildings, refundable deposits of the Head Office, security deposit liabilities, trade debtor balance of the consumer section, and lease debtor balance of the Head Office	252,522,867	Balance confirmation documents, deposit receipts, and age analysis	As these balances have existed since before 2015, it has been difficult to trace the required information at present. Therefore, verification will be carried out based on the information received in the future.	Necessary action should be taken to identify documentary evidence related to the deposits and to settle them.
(g)	Payable tax liabilities (VAT, NBT, ESC) and payable outstanding	226,654,020	Concession periods granted by the Department of Inland Revenue,	The institution has duly made tax payments from 2024 onwards. According to the institution, the	Action should be taken to settle the balance based on proper

	employee salaries and wages		vouchers related to periodic payments, explanations and written documents for non-payments, age analysis, and detailed schedules	period from 22.07.2020 to 31.12.2023 represents an inactive period for paying taxes on the Value Added Tax. This balance has existed since before that period, and due to financial difficulties at that time, payments could not be made. However, we have formally requested from the Department of Inland Revenue in writing to settle the outstanding amount in installments. Accordingly, arrangements will be made to settle the dues in installments in the future.	evidence
(h)	Interest-bearing borrowings and loan amount obtained from the People's Bank	161,060,658	Balance confirmation documents, Board of Directors' approval, loan agreements, details of interest and loan repayments, and balance confirmations	The loan amount obtained from the People's Bank represents a very old balance, and the institution does not possess the relevant information. However, we have informed the People's Bank to obtain the necessary information, but no response has yet been received from them.	Action should be taken to verify and settle the loan balance through balance confirmations obtained from the People's Bank.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comment of the Management	Recommendation
(a)	Out of the balance of Rs. 318,410,551 receivable at the end of the year under review in respect of land and building	The balances in these accounts receivable may not be accurate. Although balance confirmation	Action should be taken to recover the long-outstanding

	leases and tea leaf sales, balances amounting to Rs. 121,148,546 have remained outstanding for more than 3 years, while a balance of Rs. 39,432,101, which is over 6 years old and exceeds Rs. 2 million, had not been recovered.	letters have been sent to most of the institutions included in the Rs. 39,432,103 balance that has remained outstanding for more than 6 years and exceeds Rs. 2 million as mentioned in the audit query, no responses have been received. Further, the Land Division will be informed to take necessary action to verify, correct, and recover these receivable balances.	receivable balances that have continued to exist for a number of years,.
(b)	Although trade debtor balance of Rs. 42,528,311 related to the estates of the Board included a sum of Rs. 2,641,925 pertaining to tea leaf sales of five estates since 2004 and debtor balances amounting to Rs. 35,259,358 outstanding for more than 5 years, as well as a balance of Rs. 12,639,676 outstanding for more than 3 years under the Consumer Section, action had not been taken to recover the balances even by the end of the year under review.	Information related to the balance of Rs. 2,641,925 outstanding for more than 5 years has been submitted, and based on that information; the possibility of recovery should be further examined. Out of the balance of Rs. 12,679,636 outstanding for more than 3 years under the Consumer Section, only Rs. 39,960 has been recovered to date.	Action should be taken to recover the debtor balances that have continued to exist over a long period.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
According to the age analysis of estate creditors, out of the total creditor balance of Rs. 129,845,276, balances amounting to Rs. 94,601,161 related to 18 estates have been outstanding for more than 5 years, and balances amounting to Rs. 4,183,637 related to 10 estates have been outstanding for between 4 and 5 years. Further, out of the total trade creditor balance of Rs. 143,290,771 about the Head Office, Rs. 83,500,633 has been outstanding for more than 6 years, and Rs. 13,658,407 have been outstanding for between 3 and 6 years.	Due to the severe working capital shortage prevailing in the institution, payments to these creditors have been delayed. However, arrangements will be made to settle these creditor balances in the future as funds become available.	Action should be taken to properly identify and settle these creditor balances.

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

	Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Management	Recommendation
(a)	Sub-section 5(1) of Part II of the Gratuity Payments Act No. 12 of 1983.	Although gratuity payments should be made within 30 days from the date of an employee's retirement or death, gratuity payable amounting to Rs.636,200,235 and surcharge payable amounting to Rs.182,245,195 were observed by the end of the year under review.	Due to the prolonged working capital and financial difficulties faced by the institution, it has not been possible to make gratuity payments to employees' promptly. However, at present, gratuity payments are being made sequentially to those who have retired and those who are retiring using Rs. 30 million allocated under Cabinet Decision No. 23/0768/616/017 of 2023, along with the available cash flow of the institution.	Action should be taken to make gratuity payments within the prescribed period as stipulated in the Gratuity Payments Act in order to avoid uneconomic expenditure.
(b)	Section 15 of the Employees' Provident Fund (Amendment) Act No. 15 of 1998.	A sum of Rs. 995,794,224 was payable as provident fund contributions, and there was also an outstanding balance of Rs. 129,774,730 payable to the Estate Staff Provident Society (ESPS) and the Ceylon Planters' Provident Society (CPPS). Further, according to the financial statements at the end of the reviewed year, surcharge amounting to Rs. 39,824,048 payable to the above funds had not been settled.	Due to the severe working capital and financial shortage prevailing in the institution, it has not been possible to make EPF/ETF payments continuously since around the year 2000. However, in certain years, the Ministry of Finance has provided funds to settle these statutory arrears, and payments have been made accordingly. In addition, under Cabinet Decision No. 23/0768/616/017 of 2023, a sum of Rs. 30 million is being allocated monthly for the settlement of these	Action should be taken to make timely provident fund contributions in accordance with the Act to avoid uneconomic expenditure.

			arrears, and repayments are being made continuously from these funds.	
(c)	Sub-section 16(1) of the Employees' Trust Fund Act No. 46 of 1980	Since 2011, contributions amounting to Rs. 82,369,546 payable to the Employees' Trust Fund had not been made, and according to the financial statements, a surcharge of Rs. 835,855 was still payable by the end of the year under review.	Due to the severe working capital and financial shortage prevailing in the institution, it has not been possible to make EPF/ETF payments continuously since around the year 2000. However, in certain years, the Ministry of Finance has provided funds to settle these statutory arrears, and payments have been made accordingly. In addition, under Cabinet Decision No. 23/0768/616/017 of 2023, a sum of Rs. 30 million is being allocated the settlement of these arrears, and repayments are being made continuously from these funds.	Action should be taken to make contributions to the fund in installments as prescribed under the Act in order to avoid unnecessary expenditure.
(d)	Section 93 of the Inland Revenue Act No. 24 of 2017	The income tax return for the assessment year 2021/2022 was submitted on 11 February 2024.	Due to the delay in submitting the institution's financial statements for audit, the submission of the income tax returns to the Department of Inland Revenue was delayed. Submission of audited financial statements to the Department of Inland Revenue was required, which caused this delay. However, according to discussions	Action should be taken to submit the income tax return for the relevant assessment year to the Department of Inland Revenue promptly in accordance with the provisions of the Act.

held with the Department of Inland Revenue in 2024, the income tax return for 2021 was submitted along with the draft financial statements on 11.02. 2024.

2. Financial Review

2.1 Financial Results

The operational results for the reviewed year was a loss of Rs. 459,399,025, as compared with the corresponding loss of Rs.348,392,616 in the previous year. Accordingly, an increase of Rs. 111,006,409 in the total loss was observed. The main reason for this increase in loss was the overall rise in sales expenses related to the tea, rubber, and other crop plantations of the Board by Rs. 477,926,194.

2.2 Trend Analysis of Key Income and Expenditure Items

Income from the sale of tea leaves increased by 20 per cent in 2021 compared to 2020, while income from rubber plantations increased by 61 per cent in 2021 compared to 2020. The cost of tea leaves and the production cost for the tea consumer sector increased by 41 per cent and 10 per cent, respectively, in 2021 compared to 2020. Additionally, the expenditure related to rubber plantations increased by 18 per cent in 2021 compared to 2020.

2.3 Ratio Analysis

- In both the year under review and the previous year, the current ratio and quick asset ratio were 0.3:1 and 0.3:1.
- The gross loss ratio for the year under review was 44 per cent and it was 34 per cent in the previous year.
- The net loss ratio for the year under review was 38 per cent and it was 34 per cent in the previous year.

The analysis of the above ratios for the years 2020 and 2021 indicated that the Board was unable to cover its current liabilities from existing current assets. The continued state of gross and net losses and the existence of debt capital exceeding the institution's share capital further observed the financial difficulties and the risk of going concern of the institution during the audit.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
Although a sum of Rs. 27,814,517 had been incurred by the end of the reviewed year for small export crop projects, including compost, implemented by the Board that were contained in the work in progress, these projects were not operational at present, and the expenditures incurred have become uneconomical.	Details of these works in progress exist at the estates, and although the Head Office requested this information from the estates, no responses have yet been received. Therefore, action will be taken to obtain and analyse the information regarding these expenditures from the relevant estates.	Projects should be implemented based on a feasibility report and proper planning, and an internal inspection should be conducted regarding uneconomical expenditures.

3.2 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	To achieve agricultural sustainable development objectives, a memorandum of understanding was signed in November 2007 between the Board and a private company for leasing the Nagastanna estate. However, prior to lapse of one year of the agreement, 120 trees in the estate were cut down without authorization, and the estate was subsequently taken back by the Board. A case was filed at the Police Crime Department in May 2008 to recover the loss for the cut - down trees. According to a statement by the Board's Plantation Manager in 2008, a loss of Rs. 11,200,000 was incurred by the Board. However, the Board did not take action to assess and recover this loss, and the case had been settled by mutual agreement.	In order to implement agricultural sustainable development, in November 2007, a lease agreement was signed with Quinrich Agro Private Company for the management of the Nagastanna estate. Accordingly, Quinrich Agro Private Company paid Rs. 30 million to the Janatha Estate Development Board as part of its investment in the company. The management of the estate was handed over to Quinrich Agro Private Company, and in 2008, without the Board's approval, the company had cut down valuable trees. Therefore, a complaint was lodged with the Commercial Crime Investigation Division of the Criminal Investigation Department, and the Sri Lanka Police filed a case under B 2683 at the Ruwanwella District Court. While the police complaint stated the value of these trees as Rs. 11.2 million, the settlement letter signed on 18 December 2009 between the Board and Quinrich	A formal investigation should be conducted to accurately assess the losses incurred by the Board and action should be taken to recover the loss accordingly.

		Agro Private Company indicated the value of the trees as Rs. 7,529,688.40, and the remaining wood pieces in the estate were valued at Rs. 1,397,078.25. The letter confirmed that the Rs. 30 million paid by the company to the Board and the operational expenses incurred by the company in managing the estate had offset the value of these trees.	
(b)	Although amounts of Rs. 1,531,160 and Rs. 1,256,046 had been misappropriated from the Nagastanna and Kandaloya Estates respectively, and about 10 years have passed since the incidents, no action had been taken to recover the losses from the responsible officers even by the end of the year under review.	The case related to the misappropriation of funds at the Kandaloya and Nagastanna estates is currently under examination under case number HC/223/20 at the Kandy Court. The hearing held on 06.03.2025 is scheduled to continue on 20.06. 2025, and actions will be taken based on the future court decision.	Action should be taken to recover the losses from the responsible officers in accordance with financial regulations.
(c)	Two warehouses belonging to the Board and located on Woksholl Street had been leased to a private company in 2005 for a period of 30 years at a monthly rent of Rs. 105,000 without calling for competitive bids. Before the expiry of that lease agreement, the same lessee had again been granted a lease for another 30 years in 2011 at the same monthly rent of Rs. 105,000. According to the conditions of the first lease agreement, a sum of Rs. 7,105,000, comprising Rs. 4,655,000 for 49 increase in the monthly installments of Rs.95,000 each and Rs.2,450,000 for 14 monthly instalments of Rs.175,000 each, based on valuation reports, should have been recovered for the period from December 2005 to February 2011. However, such a recovery had not been made accordingly.	The two warehouses located at No. 175, Woksholl Street, Colombo 02, had been leased to Nilona Lanka (Pvt) Ltd by the then Board of Management in 2005 on a rental basis without calling for competitive bids. Subsequently, the two warehouses covered by the above lease agreements had been altered and a new lease agreement had been signed in 2011. Since the lease agreement signed in 2011 did not include clauses relating to revising the rent based on the Government valuation, there was no possibility of revising the rental charges. Although the matter had been referred to the Attorney General for advice regarding these lease agreements, it had been informed that no new clauses could be inserted or amendments made without the mutual consent of both	According to the lease agreements, action should be taken to recover the outstanding rent based on the valuation reports. Action should be taken, in accordance with financial regulations, against the officers who neglected to consider the increase in rent when preparing the lease agreements

Furthermore, the clauses of the second lease agreement entered into in March 2011 that required the rent to be charged based on valuation reports had been removed at the time of signing the agreement, and according to the valuation report obtained in 2020, the monthly assessed rental value was Rs. 224,000. Accordingly, due to the increase in the monthly rental, the Board had lost rental income amounting to Rs. 35,378,000, which should have been recovered based on the valuation report, comprising Rs.6,902,000 for 58 monthly installments of Rs.119,000 each, Rs.12,708,000 for 36 monthly installments of Rs.353,000 each, and Rs. 15,768,000 for 36 monthly installments of Rs. 438,000 each, for the period from March 2011 to December 2021.	parties. Accordingly, there is no possibility of increasing the rent. As per the judgment delivered by the Court of Appeal on 15 December 2014 under case numbers 21271/L and 21371/L, it has been determined that a new lease agreement cannot be signed in respect of the said lease. Furthermore, the Urban Development Authority has also obtained Cabinet approval to acquire these lands. Based on the above facts, this situation has arisen as it is not possible either to cancel or amend the existing lease agreement relating to this portion of land.	

3.3 Operating Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	Although a sum of Rs. 13,989,750 had been paid to a private company under an agreement for the installation of software and monthly payments for the period from 2021 to 30 April 2025, for a software system intended to carry out seven accounting functions of the Head Office and estates without the approval of the Board of Directors, the software system had failed to properly achieve its intended objectives such as the preparation of consolidated financial statements, inventory control, and income and expenditure management.	The deficiencies in this accounting system have been communicated in writing and verbally to the Audit and Management Committee and the Board of Directors on several occasions. However, no party has provided instructions to suspend payments for this purpose.	If the expected objectives of the accounting system are not achieved, an investigation should be carried out in this regard, and necessary action should be taken to rectify the deficiencies. Further, steps should be taken either to recover the payments made for the activities that were not performed or to obtain a new accounting system.

(b)	Under the Land Reform Act No. 01 of 1972, an extent of 1,270 acres, 2 roods, and 30 perches out of a total land extent of 1,824 acres, 1 rood, and 36 perches of the Rassagala Estate in Ratnapura had been vested in the Land Reform Commission on behalf of 20 declarants who owned more than 50 acres, as per the letter dated 5 December 1996. An extent of 462 acres, 2 roods, and 14 perches belonged to 24 landowners who possessed less than 50 acres and were not declarants under the Land Reform Act, while an extent of 91 acres and 32 perches had been reserved as undivided land for two individuals under the statutory determination. Among 46 parties, 24 non-declarant parties were allocated 206 hectares from the Hagala estate belonging to the State Plantation Corporation. Additionally, at the request of the wife of a former minister who was a non-declarant and with Board approval, she and her brother were allocated 45 acres 1 rod 16 perches from the Hantana estate as per Board Paper No. 07/SLSPC/October/2003. (The Board paper was not presented for audit.) Subsequently, ownership was granted to these two persons via two deeds of transfer on 13 November 2003 and 19 January 2004 (Deed No. 96 and Deed No. 3775) by a former Chairman and a Board member. |	The Chairman of the Land Reform Commission requested the Sri Lanka State Plantation Corporation to provide alternative land or land from the Rassagala estate to the relevant parties. The State Plantation Corporation granted approval through Board Paper No. 7/SLSPC/October/2003. Later, a case under No. 1042/98 was filed against 4 parties for the acquisition of this land. Furthermore, based on the settlement conditions submitted for the court case, a land extent of 43 acres 01 rod 16 perches from the Hantana Estate had been released. Action will be taken to provide a reply to the audit query after obtaining and verifying further information in this regard.	An investigation should be conducted regarding the allocation of lands provided to the Janatha Estate Development Board for agricultural purposes to external individuals, and action should be taken against the responsible officers.
(c)	According to the financial statements of the Board, the total annual revenue from the main sources, viz, sale of tea leaves, produced tea, estate tea sales, latex sales, and consumer sector tea sales, excluding other income earned by the estates, amounted to Rs. 1,204,225,143, whereas	Among the main reasons for the increase in sales costs are the rise in plantation worker and laborer wages due to collective agreements, the determination of tea prices during sales by Colombo brokers, and the	Measures should be taken to minimize costs and maximize profits in the processing of tea leaves.

the financial statements showed sales expenses of Rs. 1,740,151,580. As a result, the Board could not generate surplus income over the main expenses.	inability to apply proper agricultural practices due to a shortage of essential inputs. The inability to obtain higher - quality tea leaves has also contributed to lower income, as it prevented the sale of tea at better prices and the production of high-quality tea. In 2021, due to the increase in labor wages, the provision for gratuity increased by approximately Rs. 235 million compared to the previous year. These gratuity provisions and the increase in labor wages have had a relative impact on the rise in sales costs, which will be reflected in the operational performance.	

3.4 Transactions of Contentious Nature

Audit Observation	Comment of the Management	Recommendation
A fund named the “Chairman’s Welfare Fund” had been established in 2020 without formal approval, by crediting 0.25 percent of the income of the Board and estates. During the year under review, a sum of Rs. 2,917,664 had been credited to this fund, comprising Rs. 1,993,624 from tea and rubber income and Rs. 924,040 from the Jana tea sector income. Out of this fund, Rs. 4,683,175 had been spent during the year under review for employee recognition and various donations, and a balance of Rs. 600,161 remained at the end of the year under review.	This crediting has been done with the approval of the Board of Directors. It is further stated that since the Line Ministry and the Ministry of Finance have orders in this Board of Directors, the relevant approval has been obtained. Accordingly, it cannot be stated that this fund was established without formal approval.	Approval from both the Board of Directors and the Treasury should be obtained to establish the fund, and transparency should be ensured in making payments from the fund.