

## **Elkaduwa Plantations Limited - 2019**

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The audit of the operations of the Elkaduwa Plantations Limited ("Company") for the year ended 31 December 2019, 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. My comments and observations which I consider should be presented in Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Company 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 of the entity.

According to Sub-section 16(2) of the said Act, the annual financial statements in respect of every auditee entity, should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such periods as may be provided by rules.

In terms of Sub-section 38(1)(d) of the Act, the Chief Accounting Officer should ensure the timely preparation and submission of annual and other financial statements and in addition he is required to submit annual reports to Parliament pertaining to the auditee entity.

Nevertheless, the financial statements for the year 2019 approved by the Governing Board that should have been presented to the Auditor General within a period of 60 days after the end of the year of accounts in terms of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, had not been presented to the Audit even by the date of this report.

## **2. Audit Observations**

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, and Regulations.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Paragraph 02 of the Public Enterprises Circular, No. 01/2015 dated 25 May 2015.	Two permanent officers of the Company pertaining to the salary scale MM 1-1 had been paid a transport allowance totaling Rs. 1,910,000 whilst a transport and fuel allowance totaling Rs. 1,729,679 had been paid to two other officers recruited on temporary	This allowance was paid to the two officers of Financial Manager and Estate Superintendent/ Marketing Manager since the Company lacked vehicles for providing transport facilities. As paying a transport allowance is more economic than purchasing and maintaining vehicles,	Action should be taken in accordance with the Government Circulars.

basis although they had not been entitled to such perks.

An Estate Superintendent of the salary scale MM 1-1 had also been paid a transport allowance of Rs. 1,260,000.

the Board of Directors had decided and approved the payment of a transport allowance. According the letter of appointment of the Estate Superintendents, they are entitled to an official vehicle. Furthermore, action has been taken to revise the Scheme of Recruitment so that the officers requiring vehicles on official purposes would be entitled thereto.

The transport allowance had been paid to the officers in the posts of Legal Officer and Human Resource Manager who had been recruited on contract basis, and such perks had been mentioned in their contract agreements (letters of appointment). As no official vehicles had been provided for them with respect to the duties performed out of office, they used their personal vehicles. After taking this into consideration, the management had approved the payment of such allowances. Moreover, action has been taken to revise the Scheme of Recruitment so that the officers requiring vehicles on official purposes would be entitled thereto.

- (b) Paragraph 9.4 of the Public Enterprises Circular, No. PED/12, An officer of the Janatha Estate Development Board had been appointed as a Sales The Janatha Estate Development Board had attached one of their officers to the Elkaduwa It is not legal to make such appointments and pay allowances

dated 02 June 2003.

Promotion and Marketing Manager of the Company with effect from March 2017 without being approved by the Cabinet, and a sum of Rs. 360,000 had been paid as transport and communication allowance.

Plantations Limited following a request made by the Minister of Public Enterprise Development under the programme to provide relief for the politically-victimized persons in year 2017. Later, the said officer had been absorbed into the Marketing Division, and his salaries had been paid by the Janatha Estate Development Board. Taking into account the services rendered by him for the Marketing Division of the Elkaduwa Plantations Limited, sums of Rs. 25,000 and Rs. 5,000 had been paid as transport and telephone allowances respectively under approval of the Board of Directors. However, the said officer has already been released to the Janatha Estate Development Board.

without being approved by the Cabinet as per Circulars.

- (c) Public Enterprises Circular, No. 95 dated 14 June 1994. In addition to the salaries paid to the officers of the Company for the year under review, unapproved allowances totaling Rs. 331,980 had been paid as special allowance, recreational allowance, temporary allowance, interim allowance, and acting allowance. Such were the allowances paid to the employees even before the Scheme of Recruitment approved in the year 2012. It had not been requested either to cancel or suspend those allowances at the time of approving the Scheme of Recruitment. Furthermore, it is the norm not to discontinue a certain allowance that had been paid to an employee as a privilege. Certain allowances had been identified as being exclusive to the industry. As such, the allowances disclosed by the auditor, had been paid to the employees. The unapproved payments already made, should be deemed as illegal act according.
- (d) Circular Nos. 28 of 10 April 2006 and 28(ii) of 01 August 2006 of the Department of Management Services. Without being adhered to the Circulars, 07 officers had been recruited to 06 posts that had not been included in the approved cadre of the year under review, thus incurring an additional cost on salaries amounting to Rs. 4,464,380. Employees had been recruited on contract basis due to difficulties in proceeding with operations and administration owing to the inadequacy of existing posts as per the Scheme of Recruitment in the wake of expansion of operations of the Company. Contract agreements of 04 of those employees have been terminated. Nevertheless, action has been taken to maintain the necessary posts based on service requirements, and include such posts into the Scheme of Recruitment in due course. Recruitments should not be made to the posts not approved.

## 2.2 Management Inefficiencies

The following observations were made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Six vehicles had been obtained on rent from miscellaneous persons and institutions in order to be used by the Chairman of the Company during January 2018 and May 2019. A rental totaling Rs. 2,601,726 had been paid thereon. The following observations were made in that connection.		
(i) Quotations had not been called in terms of Guideline 3.4 of the National Procurement Guidelines; No. 08 dated 25 January 2006.	The Procurement Guidelines had not been followed, but the limit on rental had been decided based on the Circulars of the Treasury. Furthermore, obtaining vehicles on rent for the Chairman had been done at the discretion of the Chairman. As such, the disclosures made by the Audit are accepted as being correct.	The Government Procurement Guidelines should not be violated.
(ii) No legal Agreements had been entered into in accordance with Guideline 8.9.1 (a) of the Procurement Guidelines.	The Procurement Guidelines had not been followed, and the limit on the rental had been decided based on Treasury Circulars. Furthermore, obtaining vehicles on rent for the Chairman had been done at the discretion of the Chairman. As such, the disclosures made by the Audit are accepted as being correct.	The Procurement Guidelines should be followed.
(iii) As monthly running charts and monthly summaries had not been maintained for those vehicles, fuel expenses totaling Rs. 993,022 incurred on the vehicles could not be examined.	The Procurement Guidelines had not been followed, and the limit on the rental had been decided based on Treasury Circulars. Furthermore, obtaining vehicles on rent for the Chairman had been done at the discretion of the Chairman. As such, the disclosures made by the Audit are accepted as being correct.	The Government Procurement Guidelines should be followed, and running charts, and monthly summaries should be prepared & presented to the Audit in terms of Financial Regulation 1645.
(iv) The average running cost of the overall vehicles obtained on rent, being Rs. 133 per kilometer, had exceeded the market prices.	The cost on vehicle per kilometer had been computed based on the value of rental, driver's salary, and overtime allowances. As such, a higher value per kilometer is indicated.	The Procurement Guidelines should be followed, thus performing transactions under a minimum cost favorable to the Company.

- (v) As for the rentals payable for those vehicles, vouchers for each month had been prepared in favor of the owners. However, it was verified in audit that cheques worth Rs. 937,401 had been encashed by the Chairman, Financial Manager, Human Resource Manager, Information Technology Managers, and an Assistant Manager. In order for those cheques to be encashed by anyone other than the payee, the phrase "Account Payee Only" had been **crossed** under the recommendations of the Financial Manager, Information Technology Manager, the General Manager, and the Chairman. The bank having followed those recommendations, had paid the monies to those who had presented the cheques. As such, it is observed that the responsible officers of the Company had not acted in terms of Financial Regulations 187(4) and 384(2) relating to the cheques. Documentary verifications that the relevant monies had been given to the Chairman, were presented to the Audit by the officers who had encashed the cheques
- When payments are made to the renters, crossed cheques are usually issued in terms of the Financial Regulations by stating the rental mentioned in the Agreement. In many instances however, the crossing on the cheques had been cancelled upon being ordered by the Chairman, thus obtaining monies through the counter. Although it is erroneous to do so in terms of Financial Regulations, the subordinate officers are obliged to follow the orders given by the Head of an institution. As such, it had been so done. The said process had been done following the orders given by the Chairman. The disclosures made by the auditor are accepted.
- As the top level management of the Company including the Chairman had fraudulently utilized the funds in collusion, legal action should be taken.
- (vi) The Chairman appointed through a Letter of the Secretary to the Ministry of Finance and Mass Media dated 30 January 2019, had acted in the capacity of the Chairman of the Company prior to the date of the said letter during 17 December
- The Chairman had first been appointed on 2018.08.09, and following the change of the Government in October 2018, he had lost the appointment, but reinstated on 2018.12.19. As for his reinstatement, the letter of appointment had been received by the Company on 2019.01.29.
- Misappropriation of funds is observed; hence, legal action should be taken against the parties responsible.

2018 and 29 January 2019, and obtained the vehicle 32 ආ 4764 owned by an Estate Superintendent of the Company on rent for his use. Furthermore, a rental of Rs. 250,161 and a sum of Rs. 60,150 on 615 liters of fuel for the vehicle had also been paid by the Company relating to that period. This expenditure is observed to have been incurred without Authority. Moreover, it is documentarily verified to the Audit that the rental had not been received by the owner of the vehicle, the Estate Superintendent.

Nevertheless, an agreement had been entered into for the rented vehicle on the date of reinstatement, thus paying rentals. He had been instructed by the Minister in charge of the subject to officiate in the post of Chairman, and execution of the duties of the post had been commenced from 2018.12.18 itself. There existed no information as to whether the said rentals had been given to the renter, the Estate Superintendent; and, it is informed that the disclosures made by the auditor are accepted.

- (b) An officer appointed as a Marketing Manager, had been paid two labor allowances totaling Rs. 618,085 although he had not been entitled thereto. The officer in the post of Marketing Manager was a permanent Estate Superintendent, and absorbed into the post of Marketing through an unemployment process. He was provided with the appointment letter, the labor allowance and other allowances/privileges that an Estate Superintendent was entitled to. It was the objective of the management to control costs through the employment of an existing officer rather than making recruitment afresh. The salaries and allowances that the post is not entitled to, should be recovered from the parties responsible.
- (c) Land plots in the Pansalthenna estate owned by the Company had been given on lease to the Dialog Axiata Ltd in the year 2014 for erecting a communication tower without entering into an Agreement. Agreements had been entered into with respect to the two communication towers owned by Mobitel in Hapugaspitiya and Hunugala that the auditor had disclosed. Payments relating to the towers had been made properly. Approval of the Board of Directors and land committee of the Ministry had also been received for the tower belonging to the Dialog Axiata Ltd erected in Pansalthenna, Ratwatta. Nevertheless, the Measures should be taken to promptly enter into agreements.

Agreement had not been signed, and consent had been given to sign later. All the payments had properly been made from the date of erection of the tower up to the present day.

- (d) As for the sale of 1000 rubber trees at the Millawana Estate through tenders in the year under review, the tender had not been awarded to the highest bidder without a significant reason. The Company had been deprived of an income amounting to Rs. 539,688 as the tender had been awarded to the lowest bidders. Although the reply was given saying that the tender had been awarded to the second lowest bidder as the highest bidder had refused buying, no documentary evidence had been furnished in that connection.
- The regional tender bearing the No. EPL/PL/TB/T-08/2019 had been opened on 2019.10.21. As the highest bidder had refused buying, the Procurement Committee had decided to award the tender to the second highest bidder. As the value presented by the second bidder had been higher than the assessed value, the tender was awarded to him.
- Tenders should be awarded in a manner favorable to the Company.
- (e) The Ratwatta Tea Factory owned by the Company had been given on lease to a private company since the year 2008. Action had not been taken even up to the date of audit, 31 December 2020 to recover the outstanding lease rent of Rs. 7,468,900 that had remained recoverable from that company from the year 2013 up to the end of the year under review.
- Once leased out, the lessee had made renovations over several years, and the production process had been commenced in the year 2015. However, due to defaulting on lease rents, letters of demand had been sent on many occasions, and the Agreement had been terminated as soon as the lapse of the first 10 years of the agreement. Furthermore, the renovated factory had been handed over to the Elkaduwa Plantations Limited together with the equipment fixed by the lessee. However, it is informed that legal proceedings are taking place in that connection.
- The outstanding lease rent should be recovered expeditiously.



- (f) In case of a vacancy in a permanent post, no appointments should be made on casual basis until an appointment is made permanently; however, when a casual appointment is made due to an urgent requirement, action should be taken to make a permanent appointment as soon as possible. The post should be filled within a period of 03 months. However, an under qualified officer had been appointed to the post of Human Resource Manager on contract basis from 15 January 2019, and allowed to remain in that post for over a period of 02 years until the date of audit, 31 December 2020.
- Interviews had been conducted after publishing a newspaper advertisement in the year 2018 for the post of Human Resource Manager that had remained vacant at the Company. However, due to non-availability of a qualified and experienced applicant, a person selected among the applicants had been recruited on contract basis.
- Furthermore, considering the existing salary scales, qualified applicants do not agree to be recruited, and they had given their dissent to appear before courts with respect to the existing legal proceedings of the Company. The said officer recruited on contract basis, had given his consent to appear before courts in regard of the cases against the Company.
- Due to lack of qualified applicants in accordance with the existing Scheme of Recruitment and the salary scale, action will be taken as per the Auditor General's recommendations to revise the Scheme of Recruitment and obtain approval of the Department of Management Services thereby recruiting a permanent officer to the said post before 30 June 2021.
- (g) The finger scanner at the Head Office of the Company had not been properly maintained in the year under review, and only the registers of arrival had been maintained in many instances.
- The said finger scanner remained at experimental level; hence, the defects had been rectified. However, a register of arrival had also been maintained in parallel. Following the recommendations of the COPE, the Head Office has been established in Matale since January 2021. Accordingly, action will be taken to install the finger scanner at the Head Office in Matale within 02 weeks or before 15 May.
- Action should be taken to fill the vacancies in permanent post within a period of 03 months.
- Arrival and departure of the officers should be recorded through the finger scanner.

- (h) The Tea Factory in Selagama had been given on lease in the year 2006 without including sections to the Lease Agreement relating to the revision of the percentage of lease rent every 05 years. Accordingly, the Company had been deprived of a lease rent income totaling Rs. 1,430,542 from the year 2006 up to the end of the year under review.
- Action has been taken to update the Agreement by assessing the lease rent of the Tea Factory, Selagma based on the current market value, and recover the outstanding lease rents , if any.
- Action should be taken to include the revised sections to the Lease Agreement, and recover the outstanding lease rents.

### 2.3 Operating Inefficiencies

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The following observations were made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The Company had estimated to apply 203,561 Kg and 56,732 Kg of the U709 and STOM fertilizers respectively in the year under review. However, 136,386 Kg and 53,895 Kg of fertilizer representing 67 per cent and 95 per cent respectively, had not been made use of. A sum of Rs. 9,387,776 had not been utilized out of the expenditure estimated on fertilizer.	Although the applying of fertilizer had been estimated in accordance with the standards, agricultural activities such as applying of fertilizer, had to be abandoned halfway due to lack of working capital required for the implementation of all the programs. The monthly deficit of working capital of the Company amounts Rs. 8-10 million.	The estimated amounts of fertilizer should be applied to the cultivations.
(b) According to the data of the Ministry of Plantation Industries for the year 2018, the harvest of finished tea per hectare amounted to 1595 Kg in Sri Lanka. However, the harvest of tea from all the 06 estates administered by the Company ranged between 501-1027 Kg in the year under review. Furthermore, as for all the 06 estates of the Company, there existed 759,577 Kg of finished tea products estimated in the year under review whereas the actual production was 518,961 Kg. As such, the target achieved had been limited to 68 per cent.	Over 55 per cent of the tea estates owned by the Company have exceeded their economically useful lifetime. It is highly difficult to acquire the harvest expected as per the standards in the industry from such cultivations. The decline in the harvest had also been attributed by the inclement weather prevailing in the districts of cultivation. However, the fields of tea yielding more productive harvests have been identified, thus implementing programs to apply fertilizer, carrying out other agricultural activities, and taking corrective measures on the fields with low productivity.	Standard and estimated targets of harvest should be achieved.

- (c) An extent of 379 hectares of lands yielding less than 550 Kg of finished tea per hectare annually had been provided for external planters being pensioners. According to the data of the Ministry of Plantation Industries, the standard yield of finished tea that would have been harvested from such lands was 604,856 Kg, but only 8 per cent of that amount equivalent to 50,495 Kg of finished tea had been provided by the external planters.
- Due to reasons such as, higher maintenance costs, and low productivity, lands of the external planters had become deteriorated. Had those lands been maintained by the Company, an extremely higher cost would have been incurred. As such, programmes have been implemented to enhance productivity of the lands released to the external planters by carrying out approved agricultural activities.
- Measures should be taken to enhance the harvest rather than providing for the external planters.
- (d) According to the data issued by the Ministry of Plantation Industries relating to the year 2018/19, the average production cost for 1 Kg of rubber in Sri Lanka was Rs. 297, but as for the Company, that value amounted between Rs. 352 and Rs. 734. Furthermore, the standard average selling price per kilogram of rubber amounted to Rs. 257. However, that value ranged between Rs. 232 and Rs. 248 with respect to the Company. As such, the Company failed to maintain the production cost and the average selling price on par with standards of the industry.
- More than 65 per cent of the rubber cultivations owned by the Company had exceeded the useful and economic lifetime, thus paving way for the production cost to rise with the productivity declining. New cultivations should be established as a corrective measure.
- Action should be taken to proceed with the industry by maintaining the average unit cost and selling price.
- (e) As per the standards of the Coconut Research Institute, the average harvest of a coconut tree is 72 coconuts per annum. However, the average harvest of all the 03 coconut estates in extent of 267 hectares administered by the Company, was 35 coconuts representing less than 50 per cent of the average harvest. Furthermore, as per standards in the industry, 158 coconut trees should exist per hectare, but only 31-129 trees existed in the estates of the Company. As such, it was revealed
- Due to lack of working capital, fertilizer and other chemicals had not been properly applied to many of the coconut cultivations owned by the Company after being commenced, thus failing to achieve the expected maturity of the cultivations thereby resulting in the lack of coconut trees that should exist per hectare whilst failing to yield the harvest expected from a coconut tree. Action is being taken to provide agricultural applications for new cultivations, and identify the underutilized cultivations thereby providing them with
- Coconut estates should be managed to ensure the number of coconut trees that should exist per hectare and the amount of coconuts harvested annually.

that the number of coconut trees agricultural applications. existed in the cultivations had been 10,347 trees less than that of the number of trees that should have existed. It is also observed that this situation was a 25 per cent underutilization of lands where coconut had been cultivated.

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| <p>(f) The Company expected an income of Rs. 7,080,000 through the sale of cocoa relating to 03 estates in the year under review whereas an income of Rs. 9,275,000 through the sale of pepper from 04 estates was expected. However, the actual income earned amounted to Rs. 240,000 and Rs. 648,994 respectively equivalent to 3 per cent and 7 per cent.</p> | <p>Crops such as cocoa and pepper provide harvests periodically. Due to reasons such as, climatic changes, and lack of agricultural applications, the expected goals could not be reached. Lack of working capital sufficient for agricultural applications, had directly attributed thereto.</p> | <p>Measures should be taken to fulfill the estimated targets of income.</p> |
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## 2.4 Idle or Underutilized Assets

### Audit Observation

The Tea Factory in Ratwatta that could have been used in production process, had not been made use of from July of the year under review up to the date of audit on 31 December 2020.

### Comment of the Management

As legal proceedings are taking place with respect to the Lease Agreement of the Ratwatta Tea Factory, the production process was suspended. Measures have been taken to commence the production process as soon as the legal proceedings are concluded.

### Recommendation

Action should be taken either to commence the operations or give on lease.