

Sri Lanka State Plantation Corporation - 2019

1. Financial Statements

1.1. Adverse Opinion

The audit of the financial statements of the Sri Lanka State Plantation Corporation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of income, 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, Finance Act No. 38 of 1971 and Sri Lanka State Plantation Corporation Act No. 04 of 1958. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters discussed in the basis for adverse opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Corporation as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2. Basis for Adverse Opinion

My opinion is Adverse 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 adverse 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4. Audit Scope

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 Company'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 Corporation'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 Corporation 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation 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	Management Comment	Recommendation
(a)	In accordance with paragraphs 8 (a) and (b) of Sri Lanka Financial Reporting Standards 7, adequate disclosure should be made in the financial statements regarding pledged assets, but no disclosure was made in the financial statements in relation to fixed deposits pledged as collateral for bank overdrafts in the year under review.	2021 financial statements have disclosed the details of bank overdrafts and assets pledged for bank loans taken by the institution up to 31.12.2021.	Fixed deposits as collateral should be disclosed in the financial statements.
(b)	According to paragraph 37 of Sri Lanka Financial Reporting Standards 13, the value of freehold land owned by the corporation and 10,917 hectares of land belonging to 14 estates was not accounted for.	Walahanduwa estate was valued at Rs. 620 million in 2012 and due to the financial crisis faced by the institution for many years, it has not been possible to value other lands. These works will be started as soon as the necessary funds are received from the Treasury.	All lands and estates must be accounted for.

- (c) Although according to paragraph 37 of Sri Lanka Accounting Standards 16, only assets of similar nature and use should be classified and accounted for, in the statement of financial position of the year under review, the types of fixed assets such as computers, equipment, furniture and fixtures in the estates of the corporation are all classified as equipment, furniture and fixtures in the statement of financial position under a single item.
- This problem has arisen as computers, equipment and furniture purchased for estates in the past have been accounted for as one value. This mistake will be corrected during the preparation of the financial statements for the year 2022.
- All fixed assets should be classified and accounted for according to the standard.
- (d) According to paragraph 37 of Standard 16, bearer biological assets related to agricultural activities should be presented as a separate item under property, plant and equipment in the statement of financial position but they were presented under biological assets.
- The value of bearer biological assets related to agricultural activities will be presented as a separate item under property, plant and equipment in the preparation of the 2022 financial statements.
- Bearer biological assets should be presented as a separate item under property, plant and equipment in the statement of financial position.
- (e) Although the financial statements are required to disclose the model used to measure investment property in accordance with paragraph 75(a) of Standard 40, according to the financial statements of the current year of the corporation, it was not revealed which of the two models of the invested property cost or fair value was used, and the same value as Rs. 1,612 million was shown in the balance sheets of the regional estate companies in the year 1992 in the financial statement was mentioned under investment property in the current year.
- According to the valuation done in the year 1992 when the land owned by Sri Lanka State Plantation Corporation was leased to regional plantation companies, the balance sheets of those companies indicated the values of the respective properties, and those values were stated under investment property in the financial statements of Sri Lanka State Plantation Corporation. Necessary measures will be taken in consultation with the Ministry of Plantations regarding the revaluation of the property.
- The method by which the investment property value has been calculated should be disclosed in the financial statements.
- (f) A description of the contractual obligations to purchase, construct or develop or repair, maintain or improve an investment property (leased estate) of Rs.1,612 million in accordance with paragraphs 75 (h) and 78 of Standard 40, fair value determination on a
- The details of land transferred to the State Plantation Corporation of Sri Lanka and land leased to local plantation companies will be disclosed during the preparation of the
- According to the standard, a description of the invested property should be disclosed in the financial statements.

reliable basis. Although it should be disclosed, the Corporation had not made any disclosure of the property given by the Extraordinary Gazette No. 181/12 dated 27 February 1982.

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| (g) | As per paragraph 4 of Standard 41, forest cultivation should be accounted for under consumable biological assets, but forest cultivation costing Rs.30,313,346 was accounted under bearer biological assets. | Afforestation will be shown under Consumer Biological Assets in the preparation of financial statements for the year 2022. | Afforestation should be accounted for under consumable biological assets. |
| (h) | According to paragraphs 43, 44 and 45 of Standard 41, biological assets should be presented separately as mature and immature crops, but the biological assets of Rs. 169,202,749 disclosed under non-current assets in the statement of financial position of the year under review were not classified and presented as such. | In the preparation of the financial statements related to the year 2021, the expenses incurred in the year 2021 in relation to the replanting of tea are shown under the immature tea cultivation and in the preparation of the financial statements related to the year 2022, the expenses incurred for the replanting of tea in relation to the years before 2020 and 2020 will be classified accordingly. | Biological assets should be classified separately in the financial statements as mature and immature crops. |
| (i) | According to paragraph 57 of Standard 19, the actuarial method should be used in the calculation of the service benefit obligation of the company, but the corporation had not used a actuarial method in its benefit calculation. | In relation to the year 2022, the actuarial method will be used in calculating the service benefits of the company. | Actuarial method should be used in calculation of service benefit obligation. |

1.5.2. Accounting Policies

Audit Issue	Management Comment	Recommendation
Although the accounting policy stated in Note No. 3.1.4.2 of the financial statements states that consumer biological assets are disclosed at fair value, the biological assets of Rs.3,312,160,200 held in the year 2012 and the biological assets of Rs.2,420,933 capitalized in the year 2018 were not valued and accounted	Please be informed that in the year 2022, the consumable biological assets owned by the institution will be assessed. Also, the depreciation value accounted for the consumable biological	According to Accounting Policy 3.1.4.2 of Notes to Financial Statements, biological consumable assets should be valued and accounted for at fair

for at fair value. Furthermore, instead of being valued and accounted for at a fair value, the corporation's 11 plantations spread over 726.73 hectares were depreciated and accounted for by 4 percent i.e. Rs.1,101,536 at the end of the year under review, so the loss of the corporation was overestimate by that value.

assets for the year 2019 will be readjusted when preparing the financial statements for the year 2022.

1.5.3. Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) During the year under review, the Corporation had not identified the lease rental income of Rs. 6,189,400, the loss of the corporation was overestimated and the current assets were reduced from that value.	The relevant adjustments will be made during the preparation of the financial statements for the year 2022.	Forgone lease rent income should be accounted for.
(b) Financial statements were prepared on the basis of book value of 2017 without physically verifying the finished tea stocks worth Rs.45,238,955 and mosquito sticks worth Rs.1,609,054 in Kelebokka, Rangala and Midland estates and brokers representing 72 percent of the total stock value of the corporation.	All the stocks like tea, fertilizers and chemicals in the estates have been physically verified and the 2021 financial statements have been prepared according to those values.	At the end of the year stock verification should be done and the physical stock amount should be correctly valued and shown in the financial statements.
(c) Debtor balance under current assets in the statement of financial position included nursery plants worth Rs.8,051,222 in 06 estates. But due to the physical absence or obsolescence of those plant nurseries, their value was zero.	In the year 2022, related account adjustments will be made based on the approval of the board of directors after checking the failed tea plant nurseries.	The value of nurseries that do not physically exist should be removed from the financial statements.
(d) Amounts of Rs.61,393,076 and Rs.5,098,723 paid in court in respect of employee provident funds and employee trust funds of 04 estates of the corporation have been classified incorrectly for more than 05 years and included in trade receivables as fund deposits and due to non-removal from payable employees' provident funds and employees' trust funds, current assets and current liabilities had increased by that value. And the Corporation had not taken steps to remove the amount of surcharge paid from the payable employee provident surcharge	This accounting error has been corrected during the preparation of the financial statements for the years 2020 and 2021.	The employee provident and employee trust funds paid should be cleared from the respective credit accounts.

account and the payable employee trustee surcharge account.

- (e) Rs. 80,087,086 gratuity provisions of the corporation by adjusting the profits of the previous years without recognizing it as an expense of the year, the loss of the year under review was under-calculated by that value. In the year 2019, due to the revision of the collective agreements related to the payment of labor wages in the estates, the basic salary of the estate workers has been increased from Rs.500 to Rs. 700, accordingly adjustments were made in respect of gratuity allocations relating to previous years. Accordingly, the accounting has been done correctly. Cannot agree with the answer and corresponding corrections should be made in the financial statements.
- (f) A difference of Rs.142,418,900 and Rs.75,436,147 was observed between the allocations for the corporation's gratuity and the calculation of the gratuity payable according to the financial statements and the auditor's calculations. The mistake in the calculation of bonus allocation and payable bonus of the corporation has been corrected in the preparation of 2021 financial statements. These changes must be corrected.
- (g) A difference of Rs.1,930,180 was observed between the debit and credit balances of the Inter Estate Control Accounts. These changes in the debit and credit balances of the inter-estate management accounts will be checked and the necessary account adjustments will be made in the year 2022. The balance of the inter-estate control accounts should be settled.
- (h) A non-offsetting difference of Rs.11,837,880 was observed in the current account maintained for the exchange of goods and money between the head office and estates. Changes in the current accounts between the head office and estates will be checked and necessary account adjustments will be made in the year 2022. Changes in current accounts should be identified and settled.

1.5.4. Un-reconciled Control Accounts or Records

Item	As per Financial Statements (Rs.)	As per Corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
(a) Property Plants and Equipment	396,140,961	290,264,894	105,876,067	As per the ledger balance as on 31.12.2021, the statement of financial position has been prepared for that date and the schedule of fixed assets has also been prepared accordingly.	These changes should be found out and necessary adjustments and corrections should be made.
(b) Bearer Biological Assets	544,512,681	532,365,458	12,147,223	As per the ledger balance as on 31.12.2021, the statement of financial position has been prepared on that date and the schedule of fixed assets has also been prepared accordingly.	These changes should be found out and necessary adjustments and corrections should be made.
(c) Land Value	4,031,845	2,386,505	1,645,340	This accounting error has been corrected in the preparation of the 2021 financial statements	These changes should be found out and necessary adjustments and corrections should be made.
(d) Additions to other intercrops	582,224	884,517	302,293	This accounting error has been corrected in the preparation of the 2021 financial statements.	These changes should be found out and necessary adjustments and corrections should be made.
(e) Capitalized afforestation balance	5,807,917	6,000,217	192,299	This accounting error has been corrected in the preparation of the 2021 financial statements.	These changes should be found out and necessary adjustments and corrections should be made.

(f)	Gratuity payments	14,384,929	10,894,992	3,489,937	The amounts shown in the 2019 financial statements in respect of gratuity payments and a significant number of such deficiencies in the schedules have been corrected in 2021.	These changes should be found out and necessary adjustments and corrections should be made.
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1.5.5. Documentary Evidences not made available for Audit

	Item	Amount (Rs.)	Evidence not available	Management Comment	Recommendation
(a)	Property Plants and Equipment	974,808,631	Deeds/Licenses, Valuation Reports, Assessment Fee Payment Reports and Vehicle Registration Certificates	Files with necessary documents to confirm ownership of all land, buildings and vehicles owned by the institution are currently being prepared	Deeds/Licenses to verify ownership of land and buildings and registration certificates to verify ownership of vehicles should be submitted for audit.
(b)	Forest management cost	1,645,340	Payment Vouchers	An expenditure incurred for the preparation of the forest management plan was erroneously accounted for under the cost of property and this error will be corrected in the preparation of the 2022 financial statements.	Relevant vouchers should be submitted for audit and expenses should be properly accounted for.
(c)	Fixed Asset Register	15,906,831	Sales invoices in respect of assets which had been removed from the asset register, approval of the Board of Directors	This error is due to a typographical error. Relevant corrections will be made while preparing the 2022 financial statements.	The necessary evidence should be submitted for the audit and necessary corrections should be made for the changes.
(d)	Consumable Biological Assets and Bearer Biological Assets	3,483,783,882	Timber Valuation Reports, Field Census Reports relating to trees	It is planned to conduct field tests to verify the value of consumable biological assets and bearer biological assets listed under non-current assets and to physically	Timber valuation reports and tree census reports should be submitted for audit.

identify those assets.

(e) Debtor balances	46,610,451	A list of debtors, sales invoices, relevant sales contracts	All the debtors were informed to send the balance confirmations regarding the debtors as on 31.12.2019 and since there was no reply, the company's ledger balances were considered to be correct and financial statements were prepared.	The documentary evidence required to prove the balances should be submitted to the audit.
(f) Creditor Balances and Debtor Balances	180,588,942	Balance confirmation and late balance settlement reports	The amount payable to the tea brokers was Rs. 16,030,780 and the advance amount of Rs. 11,576,571 received from the raw material buyers has been settled in the year 2020 and all remaining creditor balances are balances carried forward from the year 2016 and earlier. Details of post balance settlements relating to debtor and creditor balances included in the 2021 financial statements are currently being prepared.	Balance confirmation and subsequent settlement reports for debtor and creditor balances should be submitted for audit.
(g) Provision for Impairment and Provision for Doubtful debt	49,128,419	A debtor list relating to provisions, approval of the Board of Directors	Since these balances are carried forward from before the year 2012, the manner in which those values have been set up will be checked and relevant disclosures will be made during the preparation of the 2022 financial statements.	Required information should be submitted to the audit.
(h) Inactive balance	1,933,043	Payment vouchers, related agreements	Since the inactive account balance of Rs. 1,933,043 included in the current liabilities of the statement of financial position is a	Necessary proofs should be submitted to the audit and relevant corrections should be made accordingly.

balance carried forward from before the year 2012, the related account adjustments will be checked during the preparation of the 2022 financial statements.

(i)	Refundable Tender Deposits	6,379,570	Relevant tender documents	This deposit amount is a balance carried forward from before the year 2006. Currently, a board paper has been forwarded to the board of directors on 25/01/2021 to write off these balances from the books and since the audit committee meeting held in December 2021 instructed to appoint a committee to deal with this matter, it is to be done accordingly.	Necessary proofs should be submitted to the audit and relevant corrections should be made accordingly.
(j)	Provisions for gratuities	17,665,750	Vouchers relating to expenses	The amount of Rs. 3,140,202 and Rs. 14,525,548 deducted as other transactions while calculating the allocation balance for gratuity will be checked and the necessary corrections will be made while preparing the financial statements for the year 2022.	The required evidence should be submitted to the audit and the relevant corrections should be made properly.
(k)	Trade receivables	3,567,597	Receipts relating to cash received	In the year 2022, this will be checked and related account adjustments will be made.	The necessary evidence to prove these balances should be submitted to the audit.

1.6. Accounts Receivable and Payable

1.6.1. Receivables

Audit Issue	Management Comment	Recommendation
(a) Of the debtor balances of Rs. 169,015,969 indicated under current assets in the statement of	A committee of officials has been appointed to find out the details regarding the non-paying debtors and	Adequate steps should be taken to settle these loan balances.

financial position, the balance between years 03 and 04 was Rs. 1,199,583 or 0.7 percent, while the balance beyond 05 years was Rs. 83,908,608 or 50 percent. Due to the lack of effective procedures to recover these loan balances in the year under review, there was uncertainty in recovery.

- (b) On October 15, 2014, the corporation had given a loan of Rs. 6 million to the Elkaduwa Plantation Company without entering into an agreement, and due to the company's default in payment of the loan amount from the year 2015, the corporation had not been provisioned for the doubtful debts for the remaining loan balance of Rs. 1,916,092.
- As of 15th October 2014, both Sri Lanka State Plantation Corporation and Elkaduwa Plantation Company was under one chairman, and upon approval of the chairman, Rs. 6 million was paid to Elkaduwa Plantation Company. Out of that amount, Rs. 4.5 million was settled in the same year, and the remaining Rs. 1.5 million has not been paid till date. Also, in the year 2015, a driver of Sri Lanka State Plantation Corporation was assigned to Elkaduwa Plantation Company and for that the amount due from Elkaduwa Plantation Company is Rs. 416,092. Accordingly, the amount due from Elkaduwa Plantation Company is Rs. 1,916,092 and a request has also been made from the Ministry of Line to assist in recovering the said amount.
- The corporation should also work to recover these loan balances and make adequate provisions in the financial statements.

1.6.2. Payables

Audit Issue	Management Comment	Recommendation
Regarding the years 2010 and 2011, there was a risk of overestimating the Corporation's liabilities due to the non-settlement of the tender deposits of Opalgala Estate, which totaled Rs.786,379, by the end of the year under review.	No. SLSPC/PL/TB/T-88/2010 and No. SLSPC/PL/TB/T-88/2011 for the tenders related to the sale of trees were not refunded (deposit money to be refunded) due to some problematic situation between the said customers and the	Actions should be taken to settle these long term deposit balances.

corporation. Once this issue is resolved, the related payments will be processed or the money will be accounted as income of the corporation.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 2 (a) of Asset Management Circular No. 01/2018 dated 19 March 2018 and Paragraph 02 of State Finance Circular No. 02/2015 dated 10 July 2015	No action had been taken to dispose 13 lorries, 25 tractors and trailers, 07 cars, 03 jeeps and 04 ambulances, 01 three-wheeler and 43 motorbikes which are unusable and need to be disposed of in the possession of the corporation even on the 9th July 2021.	Necessary measures have been taken to identify all the vehicles owned by the institute and according to the reports, a committee consisting of a mechanical engineer will identify and assess the vehicles to be used. After the completion of those activities, the vehicle disposal activities will be carried out according to the relevant circular instructions.	Unusable vehicles should be disposed of as per circular provisions.
(b) Paragraph 02 of State Finance Circular No. 438 dated 13 November 2009	07 tea factories owned by the corporation have not been used for more than 5 years to 40 years, and the buildings, machinery, tools and equipment in these closed factories cannot be used during the same closed period, but the assets were not disposed or invested in a more profitable investment for the corporation.	It is expected to start identifying unused machinery in the factories owned by the corporation in the year 2022.	The existing assets of the closed factories should be dispose or divert them to more profitable investment activities according to the circular.
(c) Paragraph 5 (2) of State Finance Circular No. 01/2014 dated 11 February 2014 and Section 5.1.3 of Public Enterprise Circular	15 days before the beginning of the financial year, a business plan containing expected commercial activities to be	The preparation of a business plan for the year 2022 has already started. The business plan will be submitted to the board of	A business plan should be prepared and submitted as per the referred circular.

- No. 12 dated 02 June 2003 implemented in the next financial year should be prepared and submitted to the line ministry, the department of public entrepreneurship, the treasury and the auditor general's department after approval by the board of directors, but the corporation had not prepared such a report. directors and after approval, a copy will be sent to the Auditor General.
- (d) Section 5.1.3 of Public Enterprise Circular No. 12 dated June 02, 2003 15 days before the beginning of the financial year, an action plan must be prepared and approved by the board of directors and submitted to the line ministry, State Enterprise Development and Kandy City Development, Department of Public Entrepreneurship, Treasury and the Auditor General's Department, but the corporation didn't prepare an action plan for the year under review. The work of preparing an action plan for the year 2022 covering all the departments of the organization has been started and after the action plan is submitted to the Board of Directors and approved, a copy of it will be sent to the Auditor General. An action plan should be prepared and submitted as per the referred circular.
- (e) Sections 4.2.3 and 4.2.6 of Public Enterprise Circular No. 12 dated June 02, 2003 Performance reports/ progress reports were to be prepared and submitted quarterly, half-yearly and annually but the corporation had not prepared those reports. After preparing an action plan for the year 2022 covering all the functions of the institution, progress reports will be prepared. Performance reports should be prepared as per the referred circular.
- (f) Section 5.2.5 of Public Enterprise Circular No. 12 dated June 02, 2003 The annual budget must be prepared 15 days before the beginning of the financial year and after approval by the Board of Directors, submitted to the line ministry, State Enterprise Budget documents related to the years 2021 and 2022 have been prepared and submitted to the Board of Directors and approved. The budget should be prepared and submitted to the proper parties after approval as per the referred circular.

Development and Kandy City Development, Department of Public Entrepreneurship, Treasury and Auditor General Department, but the capital budget prepared for the year 2019 was approved by the Board of Directors on 14th February 2019, but was submitted for audit on February 8, 2021.

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| (g) | Section 6.5.1 of Public Enterprise Circular No. 12 dated June 02, 2003 | Although the annual accounts related to sustainability must be submitted to the Auditor-General within 60 days of the end of a financial year, the accounts of the corporation for the reviewed year were submitted to the Auditor-General on February 25, 2020, and by that time the period for submitting the accounts had exceeded one year. | The financial statements related to the year 2020 have been submitted to the Auditor General on the due date, and the financial statements related to the year 2021 have been presented to the Board of Directors meeting held on 25 th February 2022. | Arrangements should be made to submit the annual accounts to the Auditor General within the prescribed time frame. |
| (h) | State Finance Circular No. 3/2015 dated 14 July 2015 | Although the interim advance should be settled within 10 days after the completion of the relevant work, in the year 2019, 14 officers in 50 situations received a sum of Rs. 342,540 and delayed the settlement of the interim advance period of time from 11 days to 321 days. | There have been delays in the settlement of interim advance related to the year 2019. Nevertheless, it has been possible to reduce such delays from the beginning of the year 2022. | As soon as the works are completed, arrangements should be made to settle the interim advance as per the circular. |
| (i) | Section 9 (b) of the Guidelines on Transfer of Government Lands No. SAI/A/01/34 issued by the | Due to non-revision of rent not less than 150 per cent of the pre-determined rent every 5 years and | 01 rood and 39.07 perches from Opalgala Estate have been leased to Dialog Broad Brand Private | As per the referred circular, the annual lease rent should be determined according to the |

<p>Presidential Secretariat on 25 July 1995</p>	<p>consideration of annual rent less than the assessed value of the government, on the last day of the reviewed year, 01 rood and 39.07 perches in Opalgala estate were given to Dialog Broadband Private Company and independent television station in Hunnasgiriya estate and Gammaduwa estate to the lease base and the corporation had been lost Rs.18,482,000 in lease rent and Rs.2,484,000 as road maintenance amount.</p>	<p>Company for a period of 30 years from 01.01.2000. According to the conditions mentioned in the lease agreement, the amounts have been increased by 50% every 5 years. The money related to the year 2022 has already been received. 2 roods and 2.87 perches from Gammaduwa estate belonging to the corporation and 2 roods and 2.01 perches from Hunnasgiriya estate were leased to the independent television station in the year 1996 and no lease agreement was signed in this regard. Therefore, with the help of the Ministry of Plantations, this problem will be expected to be resolved.</p>	<p>government's assessed value and the lease rent should be revised every 5 years and it is not less than 150 percent, new lease agreements should be entered into and arrangements should be made to collect arrears lease rent and road maintenance money.</p>
<p>(j) Public Enterprise Circular No. 1/2015 dated 25 May 2015</p>	<p>Officers belonging to MM-1 category are not entitled to vehicle allowance but in the year under review three officers were paid Rs. 1,350,000 official vehicle allowances and Rs. 224,760 fuel allowances were given.</p>	<p>Transport allowances and fuel allowances of all officers belonging to the MM category of the institution have been stopped.</p>	<p>The referred circular should be followed and actions should be taken to recover the payments against the circular.</p>
<p>(k) Section 3.2.1 of Public Enterprise Circular No. 1/2015</p>	<p>Although the chairman's monthly fuel allowance is 170 liters, 679 liters of fuel was obtained during the year exceeding those limits, but the approval of the relevant line ministry secretary was not obtained for this with the</p>	<p>As mentioned in the draft report, the relevant approvals have not been obtained for the additional fuel obtained by the chairman of the institution.</p>	<p>According to the circular, arrangements should be made to recover the expenses related to the fuel obtained without obtaining the approval of the relevant line ministry secretary.</p>

recommendations of the board of directors.

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| (l) | Section 15 of the Employees' Provident Fund Act No. 15 of 1958 and Section 16(i) of Part ii of the Employees' Trust Fund Act No. 46 of 1980 | Since the year 2006, employee provident fund contribution of Rs. 421,921,940 and Rs. 14,380,082 employees' trust fund contributions had not been paid up to the end of the year under review, and as a result, the Corporation had imposed surcharges totaling Rs.43,215,912 by the year 2019. | Due to the financial crisis that the institution has been facing for a long time, these surcharges have to be paid due to the inability to pay employee provident contributions, employees' trust fund contributions and employee gratuities as scheduled. To settle these arrears, after receiving the money from the Treasury, the related payments will be settled. | An effective arrangement for the payment of these arrears contributions should be made immediately. |
| (m) | Sub-section (5) (1) of Part ii of the Payment of Gratuity Act No. 12 of 1983 | Although gratuity payments should be made within 30 days from the date of retirement or death of an employee, the corporation had imposed a surcharge of Rs.14,525,548 by the end of 2019 due to non-payment of gratuity on the due date. | Due to the financial crisis that the institution has been facing for a long time, these surcharges have to be paid due to the inability to pay employee provident contributions, employees' trust fund contributions and employee gratuities as scheduled. To settle these arrears, after receiving the money from the Treasury, the related payments will be settled. | An effective arrangement should be made for prompt payment of arrears of gratuity. |

1.8. Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) The nation building tax expenditure was reduced by Rs. 644,025 due to not taking into account a tea sale income of Rs.32,201,293 subject to nation building tax in the calculation of nation building tax.	Due to the financial problems faced by the institution for some time, it has not been possible to settle the nation building tax due on tea sales income.	All income subject to nation building tax should be taken into account in the calculation of nation building tax.

- (b) According to section 02 and 03 of the Nation Building Tax Act No. 09 of 2009, every company whose taxable turnover exceeds 3 million rupees should voluntarily register for the tax, but the corporation had not done so. Due to the financial crisis that the institution has been facing for a long time, no attention has been paid to the taxes that the institution should have paid to the Inland Revenue Department. Therefore, the board of directors will be informed about this and further work will be done according to the instructions received in this regard. Necessary steps should be taken to register as per the Nation Building Tax Act.
- (c) According to Section 2 (c) of the Nation Building Tax Act, income received under other heads of income shall be subject to tax but Rs. 106,974,735 other incomes were completely disregarded for the nation building tax calculation and tax payments of Rs.2,139,494 were defaulted. Due to the financial crisis that the institution has been facing for a long time, no attention has been paid to the taxes that the institution should have paid to the Inland Revenue Department. Therefore, the board of directors will be informed about this and further work will be done according to the instructions received in this regard. According to the Nation Building Tax Act, the income received under other income heads should be taken into account in calculating the nation building tax.
- (d) In terms of Section 113 of the Inland Revenue (Amendment) Act No. 10 of 2006, an individual or a joint venture shall, on self-assessment basis, submit to the Inland Revenue Department at the end of a quarter the remaining amount of tax on or before August 15, November 15, February 15 and May 15 of the following year respectively. If it is due on or before September 30 of the following year, but the corporation has not paid the income tax related to the 2019/2020 assessment by April 22, 2021 and the income tax liability has not been calculated. Due to the financial crisis that the institution has been facing for a long time, no attention has been paid to the taxes that the institution should have paid to the Inland Revenue Department. Therefore, the board of directors will be informed about this and further work will be done according to the instructions received in this regard. According to the Inland Revenue (Amendment) Act, income tax should be calculated, accounted for and the relevant reports should be submitted to the Inland Revenue Department.
- (e) In terms of Section 106 of the Inland Revenue (Amendment) Act No. 10 of 2006, the income tax return must be submitted to the Inland Revenue Department on or before November 30th of the following year, but the corporation income tax return for the assessment year 2019/2020 had not Due to the financial crisis that the institution has been facing for a long time, no attention has been paid to the taxes that the institution should have paid to the Inland Revenue Department. Therefore, the board of directors will be informed about this and further work will be done according to the instructions According to the Inland Revenue (Amendment) Act, income tax reports should be submitted to the Inland Revenue Department.

been handed over to the department received in this regard.
even by 22nd April 2021.

- (f) According to Sections 02 and 06 of the Economic Service Charges Act No. 13 of 2006, every entity whose income in a quarter exceeds Rs.10 million must be subject to tax, but in relation to the reviewed year, the corporation had not paid the economic service charges of Rs.1,339,832. Although economic service fees are to be paid on or before the 20th of the following month after the end of a quarter, the corporation has not submitted reports or paid fees from the year 2012 to the 2019 financial year.
- Due to the financial crisis that the institution has been facing for a long time, no attention has been paid to the taxes that the institution should have paid to the Inland Revenue Department. Therefore, the board of directors will be informed about this and further work will be done according to the instructions received in this regard.
- According to the Economic Service Charges Act, reports should be submitted and payments should be made.

2. Financial Review

2.1. Financial Result

The operating result of the year under review was a loss of Rs. 329,884,391, and correspondingly the loss of the previous year was Rs. 147,798,507. Accordingly, a deterioration of the financial result of Rs. 182,085,884 was observed comparing to the previous year. The increase in this loss was mainly due to the decrease in the raw tea leaves and rubber sales income of the corporation by Rs. 84,126,292 and Rs.1,221,536 respectively in the year under review as compared to the previous year.

Analyzing the financial results of the reviewed year and the previous 04 years, the contribution in 2015 was Rs. 213,603,074, while in 2016 it was Rs. 256,171,541. That is a 20 percent growth. In the year 2017, the contribution increased by 96 percent, that is up to Rs. 502,277,402 growths due to the increase in the sales income of finished tea and raw tea leaves and in the year 2018 due to the decrease in the income of raw tea leaves and rubber, the contribution decreased by 14 percent that is up to Rs. 430,855,881, meanwhile, in the year under review, the contribution had decreased by 26 percent that is up to Rs. 317,764,114 due to the decrease in raw tea leaves and rubber income.

2.2. Trend Analysis of major Income and Expenditure items

	2019 (Rs.)	2018 (Rs.)	Increase / (Decrease) (Rs.)
Revenue	535,933,037	597,950,423	(62,017,386)
Other Income	106,974,735	115,508,842	(8,534,107)

Cost of Sale	(786,607,907)	(720,501,111)	66,106,797
Administrative Expense	(165,473,851)	(128,666,247)	36,807,605
Finance Expense	(20,710,404)	(12,090,415)	8,619,988

2.3. Ratio Analysis

- (a) The current asset ratio of the year under review and the previous year was 0.20:1 and the quick asset ratio was 0.15:1. The value of trade and other payable balances in the head office and estates in the year under review and in the previous year Rs. 1,318,555,797 and Rs. 1,091,072,027 respectively was mainly due to deterioration in current assets and quick assets ratios.
- (b) In the year 2019, the gross loss ratio and the net loss ratio were 47 percent and 62 percent respectively, and last year those percentages were 20 percent and 25 percent respectively, so in the year under review, those ratios had decreased by 27 percent and 37 percent respectively.

3. Operational Review

3.1. Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	It was observed that 782 perches of land and 5 quarters in 09 estates have been occupied by squatters for nearly 50 years.	Among the squatters in 12 estates, the land of Goomara Estate has been reclaimed. The party has filed an appeal to the Supreme Court against the judgment given by the Galle Civil Appeals Court regarding the illegal occupation of the land in Walahanduwa Estate. In all other estates, cases have been filed in the respective courts to evict the squatters.	Legal actions should be taken to solve the problem regarding squatters.
(b)	In the year under review, there was a loss of Rs.712,500 due to giving 39.07 perches of Opalgala Estate to Dialog Broadband Private Company less than the assessed value of the government, and an amount of Rs.427,500 due from giving to the sub-lease base was lost.	The institute has started a re-inspection regarding the leased land and the lease agreements and according to the facts revealed during the inspection, further work will be done in this regard with the approval of the board of directors.	Necessary steps should be taken to amend the agreements and recover the arrears lease amount.

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| (c) | For the land of 02 roods and 01 perches of Hunnasingiriya State Estate and 02 roods and 2.87 perches of Gammaduwa State Estate, given to Independent Television since 1996, had not been signed agreement. | No lease agreement has been signed regarding this land which was leased to Independent Television in 1996. Letters dated 23.12.2020 and 22.10.2021 has been sent to the said company for agreeing to sign a lease agreement and no good response has been received in this regard so far. Therefore, with the help of the Ministry of Plantations, this problem will be expected to be resolved. | Arrangements should be made to enter into a contract with the concerned institution as soon as possible. |
| (d) | At the end of the journey, the officials who traveled did not sign the vehicle's driving log and although the daily fuel balancing should be done in the daily driving log, the daily fuel balancing was not done in the driving log related to the 04 vehicles submitted for audit. | The driver was called and warned to take action to prevent these situations. Most of the vehicles used by the corporation are about 35 years old and the odometers of those vehicles are not working properly. Therefore, all the drivers have been informed to properly repair the milometers of those vehicles and do the fuel balancing accordingly, and the transport department officer will supervise whether these tasks are done properly. | Vehicle running charts should be signed by the relevant officer and arrangements should be made to balance the fuel. |

3.2. Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the data of the Ministry of Plantation Industry, although the standard annual yield of finished tea per hectare in Sri Lanka in 2019 was 1482 kg, the yield in the 13 estates controlled by the corporation was in a very low range between 174 and 727 kg.	According to the data of the Ministry of Plantation Industry, the standard finished tea yield per hectare in Sri Lanka in the year 2017 was stated in the draft report to be 1595 kg, but according to the statistics of that ministry, the standard finished tea yield per hectare in the corporation sector for the year 2019 is 1018 kg. However, in 2019, the finished tea yield of the plantations belonging to the corporation was in the range of 174-727 kg.	Actions should be taken to maintain the productivity of the estates belonging to the corporation at par with the standard average productivity of the field.

- (b) The corporation has a tea plantation of 4222 hectares, but out of that, 2883 hectares are more than 100 years old and only 135 hectares have been re-cultivated. In the draft report, the tea plantation which is more than 100 years old is stated as 4086 hectares, but according to the institute's files, the amount is 2883.31 hectares. Due to the financial crisis faced by the institution, it has not been possible to remove the old tea plantation and start the plantation again. However, in the year 2022, under the funds of the General Treasury, the necessary activities are currently being carried out to start replanting 180 hectares of tea. Urgent steps should be taken to remove very old plantations and replant them with higher productivity.
- (c) According to the corporation's annual performance reports, from 2017 to 2018, the production of tea leaves in 11 of the 13 estates controlled by the corporation increased, while the production of tea leaves in the five estates of Alakolla, Galphella, Goomara, Hunnasgiriya and Kelebokka had decreased by 1 percent and 9 percent respectively and during 2018-2019 the production of all the estates owned by the corporation had decreased by a range of 2 percent to 33 percent. The total production was 170,627 kg which was down by 11.58 percent. Compared to 2017, we acknowledge that there has been a decrease in the production of tea leaves in the plantations of Alakola, Galphella, Goomara, Hunnasgiriya and Kelebokka in 2018. However, compared to the year 2018, the total finished tea production of the corporation has increased by 11 percent in the year 2020 and by 14 percent in the year 2021. Efforts should be made to increase the productivity of tea leaves in the estates owned by the corporation.
- (d) The total finished tea production from 1391 hectares given to external planters was 102,507 kg in 2018 and 99,850 kg in 2019 and according to the data of the tea industry presented by the Ministry of Plantation, the annual standard finished tea production of the area is 2,061,462 kg. However, it is observed that 5 percent of the total output was produced by out-growers as a controversial point. By the end of 2019, the amount of tea land given to external planters was 1391 hectares. Finished tea production related to yield of external planters in 2018 was 102,507 Kg and in the year 2019, we accept that it is 99,850 Kg. (According to the Ministry of Plantation statistics, the finished tea productivity of the corporation sector is 1018 Kg per hectare.) Nevertheless, the finished tea production of external planters has increased by 54 percent in the year Necessary actions should be taken to reach the annual standard finished tea production in the tea industry and the reasons for the decrease in productivity should be investigated immediately.

2020 and 66 percent in the year 2021 compared to the year 2018.

- (e) According to the data released by the Census and Statistics Department for the year 2018/2019, the average production cost of one kilogram of tea in Sri Lanka should be Rs. 484, but the production cost of one kilogram of tea in 11 estates controlled by the corporation was in the range of Rs 416 – 783. And according to the budget reports, the estimated production cost of one kilogram of tea was Rs.461 and the actual production cost was Rs. 605.
- The data mentioned in the report is correct.
- Actions should be taken to increase the sales contribution by reducing the cost of production.
- (f) According to the data released on the Internet by the Tea Export Association in relation to the year 2019, the standard average selling value of one kilogram of tea should be Rs.550, but the value of the corporation was in the lower range between Rs.340 and Rs.415.
- The data mentioned in the report is correct.
- Actions should be taken to increase the selling price.
- (g) Though the total area in respect of 13 estates of the Corporation was 11,132 hectares, of which 4,223 hectares were used for tea and 2577 hectares for rubber. It was observed that the remaining 4332 hectares that is 39 percent of land is lying idle without contributing any revenue.
- The total land area pertaining to 13 estates of the corporation is 11,132 hectares. Out of which 4,223 hectares are under tea cultivation and 2,577 hectares are reserved for rubber and other cultivations. The majority of the remaining 4,332 hectares of land is in the Knuckles Reserve, with the rest being roads, buildings and rock formations.
- Actions should be taken to utilize the land belonging to the corporation for effective purposes.
- (h) The standard amount of finished tea to be produced annually by the corporation's tea production area of 4233 hectares should be 6,273,306 Kg, but the amount of finished tea produced by the corporation was 1,402,979 Kg. That is, 22 percent of the standard result and it was a very unsatisfactory productivity.
- According to the statistics of the Ministry of Plantations, the standard finished tea productivity of the corporation sector for the year 2019 is 1,018 Kg per hectare. Accordingly, the standard finished tea production for the year 2019 is 4,309,194 Kg and the actual finished tea production of the corporation is 1,402,979 Kg. That amount is 32.63 percent of the
- Urgent actions should be taken to achieve at least a standard average yield from the estates owned by the corporation.

standard production when taken as a percentage.

The area of tea land for the years 2020 and 2021 is 4,189 and 4,199 hectares respectively. According to the statistics of the Ministry of Plantations, the standard finished tea production of the corporation sector for the year 2019 is 1,018 kg, and accordingly, the standard finished tea production of the corporation for the years 2020 and 2021 is 4,264,402 kg and 4,274,582 kg respectively. The corporation's finished tea production related to the years 2020 and 2021 respectively is kg. 1,742,360 and 1,803,226 kg and accordingly, in the years 2020 and 2021, the total finished tea production of the corporation as a percentage of the standard finished tea production has been raised to 40.86 percent and 42.18 percent respectively.

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| (i) | Out of the production targets given to each estate for the year under review, the performance of all the estates except Goomara and Galphella estates was less than 75 percent and Hairpark and Waithalawa estates showed less than 45 percent performance. The other nine estates underperformed between 50 percent and 68 percent. | The data mentioned in the report is correct. | Make plans for production goals and take immediate steps to achieve those goals. |
| (j) | In the reviewed year, Rs. 60 million had been allocated in the budget for the purchase of fertilizers, but only Rs. 3.56 million had actually been spent. It was only 6 percent of the budgeted amount. | Due to the non-receipt of income as expected for the year 2019, it has not been possible to make sufficient purchases of fertilizers. | Work to prepare realistic budgets and achieve budgeted targets. |
| (k) | The profit of Rs.852,397 in the year 2013 had been transformed into a loss of Rs.3,177,798 in the year 2014 and the loss had grown to Rs.7,817,916 in the year 2019. | This kind of situation has arisen due to the lack of income of the institution for a long time. | Plans should be prepared and implemented to increase revenue and reduce expenses. |

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| <p>(l) According to industry standards, the average number of rubber plants that should exist in a land size of 65 hectares in Walahanduwa Estate is 32,500, but the number of rubber plants that existed was 18,634. It is 57 percent of the amount that should be there and although the average rubber production per hectare in 2019 is 667 kg, the average rubber production per hectare in Walahanduwa Estate is 432 kg. That is, the figure was as low as 65 percent.</p> | <p>According to the data of the Sri Lanka Rubber Research Institute, the number of standard rubber plants per hectare is 516 and when the number of failed plants is taken into consideration, the number of rubber trees per hectare is between 300-500. However, due to the financial crisis faced by the corporation, it has not been possible to carry out the maintenance work of the rubber plantation properly and therefore the production of rubber has decreased.</p> | <p>According to industry standards, actions should be made to maintain sufficient number of rubber plants and rubber production.</p> |
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3.3. Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(a) As per 4.2.1 (b) of the Government Procurement Guidelines, a procurement plan containing expected procurement activities for a period of at least three years was not submitted to the audit.</p>	<p>Due to the financial crisis that the institution has been facing for many years, it has become difficult to prepare a procurement plan for the next 03 years.</p>	<p>A procurement plan should be prepared and submitted to the relevant parties.</p>
<p>(b) A vehicle had been obtained for the period from 23 February 2019 to 06 December 2019 by paying an amount of Rs.890,680 for the use of the chairman without calling for quotations.</p>	<p>In the year 2019, a price call was made for renting a vehicle for the then chairman, and accordingly the relevant supplier was selected based on the decisions of the procurement committee. However, the relevant procurement file was not maintained properly.</p>	<p>All purchases should be made in accordance with the Government's procurement guidelines and file maintenance should be regularized.</p>
<p>(c) 7.12.2 (a) of the Government Procurement Guidelines states that if only one bid is received and the bid price is reasonable with the market values, then the bid may be considered valid, but only one supplier bided for the purchase of 120 liters of chemicals of the corporation at Rs.207,000 and the supplier was selected without comparing the price with the market values at the time of bidding.</p>	<p>For the purchase of 120 liters of herbicide chemical fertilizer (Hexaconzole) for plantations in the year 2019, prices were invited from 03 companies and only Hayleys company had submitted the prices. The other two agencies informed that they do not have stock. The price given by Hayleys was Rs.207,000 and the supplier</p>	<p>After comparing the prices with the market values, the supplier should be selected and the file maintenance should be formalized.</p>

was selected after comparing the prices with the normal market prices and even then the details of the same were not recorded in the files.

- (d) From the year 2017 to the year 2019, an amount of Rs.2,740,890 was paid as rent for 03 vehicles obtained for the acting director and in the selection of suppliers during the procurement process, the suppliers were not selected transparently from registered suppliers or as per the guideline 3.4.4 of the procurement guidelines, no bid document has been prepared, no mention has been made to the supplier of the conditions to be met for obtaining the relevant services as per 3.4.2 (a) of the procurement guideline, letters of quotation have not been sent by registered post or by any other acceptable means as per 6.3.1 (a) of the procurement guideline. , Quotations received from institutions or persons not sent by registered post, as per the 6.3 (a) not contained in a sealed tender box, as per the 6.3.3. the bids had not been publicly opened and the procurement committee had acted as the technical evaluation committee. The audit had confirmed that both the prices submitted by the selected bidder while hiring the KH 1932 vehicle were fake. Also, when checking the vehicle numbers mentioned in these prices, it was revealed that the vehicles with those numbers do not belong to the people who submitted these prices, but to other people and institutions.
- Regarding this incident, an apology has been made from the concerned officials and we would like to inform you that according to the answers given by those officials, further work will be done as per the instructions of the Board of Directors.
- An investigation should be conducted and disciplinary action should be taken against the parties found to have violated the procurement guidelines.
- (e) The National Competitive Bidding System was followed to evaluate the Corporation's fixed assets and although the minimum period for calling for bids is 21 days according to 6.2.2 of the Procurement Guidelines, only 14 days
- In 2019, we acknowledge that there has been a deficiency in the basic procurement activities related to the assessment of the fixed assets of the corporation. However, this work was stopped midway due to
- According to the provisions of the Procurement Guidelines, provision of sufficient time for inviting bids, obtaining

were given to the contractors, and three officers have participated in the technical evaluation committee meeting but one of the three officials has not given a date of signature and the selected evaluator had not submitted the bid security as per 5.3.11 of the Procurement Guidelines. Also no contractual agreement was entered into between the two parties as per 8.9.1 (b) of the Procurement Guidelines.

funding problems.

bid security and making arrangements to enter into an agreement should be done respectively.

(f) According to 6.2.2 of the procurement guidelines for calling for bids to subdivide land in Kalutara district, although the minimum period for calling for bids in the national competitive bidding system is 21 days, only 07 days were given to submit bids and it was observed that the bidders had not submitted bid security as per 5.3.11 (a) of the Procurement Guidelines and no contract agreement had been entered into between the two parties as per 8.9.1 (b) of the Procurement Guidelines. Furthermore, the selected bidder has requested to provide the agreed amount until the related measurement work has been completed, but according to 8.12.4 of the procurement guidelines, the official has not issued a formal certificate that the services have been performed in accordance with the provisions of the contract.

In 2019, we acknowledge that there have been deficiencies in the procurement activities related to the surveying of 83 acres of Newchattle estate in Kalutara district. Efforts will be made to prevent this from happening in the future.

According to the provisions of the procurement guidelines, a bid security, an agreement between the two parties and a formal certificate that the services have been performed in accordance with the provisions should be arranged.

(g) Not reported the opening of bids according to the forms mentioned in Section 6.3.6 of the Procurement Guidelines, observed that the tender evaluation reports were not prepared in the format mentioned in 7.11.1 of the procurement guidelines and the related documents of completion of works as per 8.12.2 of the procurement guidelines were not in the files of the completed procurements.

In 2019, we acknowledge that there have been deficiencies in the procurement activities related to the modernization of the water supply system in Goomara Estate. It will not be like that from now on.

Procurement guidelines should be followed.

3.4. Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) As per the letters of the Department of Management Services dated 25th July 2017, 13th September 2018, 21st December 2018 and 09th October 2019 in the Head Office of the Sri Lanka State Plantation Corporation there had been 15 vacancies of the permanent staff, appointments in 2 posts in excess to the approved cadre, appointments in 11 contract posts in excess to the approved cadre, vacancies in 02 posts and 02 vacancies of temporary positions had been existed as at 31 December 2019. In addition to that, 03 contract staff in the cadre and Rs.2,736,095 was paid as salaries and allowances in the year under review for excess 09 posts of contract staff.	Out of the total approved staff of the Corporation, staff recruitment has been made not exceeding the number of posts (permanent or contract) approved under each category of posts. By hiring an officer on contract basis for a particular position without hiring a permanent officer for that position, it is more beneficial to the organization as it is possible to end the contract service period of the concerned officer when necessary. Accordingly, due to the financial crisis faced by the institution, the activities of the corporation have to be run by a limited staff.	Employees and officers should not be recruited exceeding the approved cadre.
(b) According to Section 5.2 of Chapter 11 of the Establishment Code, a permanent officer must be appointed for that position as soon as a vacancy occurs, but the positions of Manager Legal and Deputy General Manager Plantation, which have been vacant since 2008, for the officers appointed on contract basis without appointing a permanent officer, respectively for the year 2019 Salaries of Rs.350,373 and Rs.377,735 were paid.	An officer was recruited for the position of Manager - Legal on 03.01.2022 under permanent basis, and for the position of Deputy General Manager - Plantations on 06.01.2021, the officer who was the Estate Officer of Galphella Estate at that time was appointed following the prescribed procedures.	Arrangements should be made to recruit permanent officers for the vacant posts.
(c) According to Chapter II of the Management Services Circular No. 3/2018 dated July 18, 2018, without the approval of the Management Services Department, 12 officers were recruited on contract and permanent basis such as Executive Director, Consultant, Clerk, and Laborer during the year under review, salaries of Rs.4,321,049 were paid.	In the year 2019, an appointment as an executive director was made by the minister in charge at that time. Other recruitments have been made as per the requirement of the service and the approval of the Management Services Department has not been obtained for those recruitments.	Recruitment of staff shall not be done without prior approval of Management Services Department
(d) 07 new recruitments and 02 promotions were made in the head office without the approval	As mentioned in the audit report, Management Assistant, Executive	No recruitment shall be made without the

of the board of directors and salaries and allowances of Rs.2,934,690 were paid for that.

Director, Legal Officer, Executive Director's driver and two workers have been appointed without the approval of the Board of Directors and in accordance with Public Administration Circular No. 29/2019 dated 18th September 2009 and EC/EDR/PRE/INQ dated 30th September 2019. According to the Election Commission circular, the services of the concerned persons have been confirmed on the recommendation of the internal auditor. The approval of the Board of Directors has been obtained to confirm the services of the Estate Superintendent. After 28th February 2020, all appointments and promotions in the institution have been made following formal procedures and with the approval of the Board of Directors.

approval of the Board of Directors

(e) The Corporation did not have an approved recruitment and promotion procedure including educational and other qualifications required for recruitment to any post as per paragraph 9.3.1 of State Business Circular No. 12 dated June 02, 2003.

The draft recruitment procedure prepared by the institute was amended on 03 occasions on the advice of the Ministry of Plantation and Management Services Department. Accordingly, a letter dated 02nd April 2021 has been directed to the Ministry of Plantations to send the revised recruitment procedure to the Management Services Department.

An approved scheme of recruitment and promotion shall be prepared and approved by the Corporation.

(f) In all cases except in the case of refusal to pay increments in accordance with sub-section 10.2 of Chapter VII of the Establishment Code, in accordance with sub-section 10.1 it is specified that the salary increment shall be earned in the year relating to the salary increment date. But contrary to this, it was observed during the sample check that the management had given more than 01 salary increments in the years 2017, 2018 and 2019 without any evaluation and due to this, the corporation had paid a salary

As of May 2017, the Corporation has reported that it has made a profit, and as an incentive to the employees, the salary increment has been given with the approval of the Board of Directors. In the years 2018 and 2019, no additional salary increments have been given and at this time, staff salary increments will be given formally.

Chapter VII of the Establishment Code shall be followed in granting salary increments.

increment of Rs.1,253,223 to 27 staff members in the year 2019.

- (g) According to Sub-section 3 of Chapter II of the Establishment Code, the appointing authority should call for applications through public notices in accordance with the recruitment procedure for all vacancies in the public service, but 23 new recruitments made by the corporation in the year under review were done outside of calls for applications through public notices.
- These appointments have been made according to the service requirement of the estates.
- Recruitment of staff/estate workers should be done in accordance with approved rules.