

Tea Shakthi Fund - 2017

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Tea Shakthi Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive 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, Tea Shakthi Fund Act, No. 47 of 2000 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

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

1.2 Basis for Disclaimer of Opinion

The opinion is disclaimed on the financial statements based on the matters set out in paragraph 1.5 of this report.

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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. \

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but 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 fund'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 fund'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 fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and whether the resources of the Fund 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

Noncompliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Although the Tea Shakthi Fund had received treasury grants of Rs. 437,505,030 from 1998 to 2004 to start tea factories, the grants were amortized at Rs. 43,750,503 each per year from 2012 on the basis of amortizing in 10-years, without clearly identifying how the funds were utilized for fixed assets and operating expenses, and in violation of paragraph 12 of Sri Lanka Accounting Standards No. 20, and evidence was not presented to the audit regarding the assets purchased/constructed/modernized using the treasury grants, the value of those assets, and from which year they were depreciated.	The purchase and construction of assets of the Tea Shakthi Fund were carried out in the years 2000, 2001 and 2002, and the Tea Shakthi Fund does not have reports in relation to the assets, which were purchased/constructed/modernized using provision amounting to Rs. 437.5 million provided by the General Treasury.	The fixed assets and operating expenses of the Treasury grants should be identified specifically and the assets should be documented and accounted and depreciated.
(b) Although the depreciation was adjusted in a manner that was not in accordance with the depreciation rate as per the provisions of the said standard, disclosure had not been made in the accounts of the year under review. Accordingly, the accuracy of	Action will be taken to do the relevant rectifications by using the reports of the final accounts for the year 2018.	The amortization adjustment should be disclosed in the financial statements in accordance with Sri Lanka Accounting Standards.

the value of Rs. 43,750,503 identified as deferred income in the financial statements for the year could not be verified during the audit.

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| (c) | Although the amortization of intangible assets should be started once they are ready for use in accordance with paragraph 97 of Sri Lanka Accounting Standards 38 and Accounting Note No. 2.5, the amortization has not yet been carried out as at the end of the year under review even though 7 years had passed after the installation of the computer and software purchased for Rs. 2,600,000 in the year 2010. | Even though the relevant software was designed to use jointly by all the factories, it was not possible to use it due to the inability to network some of the factories together. The relevant software had not been physically handed over to the Ministry of Plantation Industries at the time of transferring the Tea Shakthi Fund under the Restructuring Programme and a decision is to be taken in the future after studying further in this regard. | The computer and software should be installed and amortized in accordance with Sri Lanka Accounting Standards. |
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1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	As accounting of mature tea plants totalling to Rs. 5,125,702 cultivated in the years 2012, 2013 and 2014 as immature tea plants at the end of the year under review, the value of mature tea plantations of the Fund had been understated by Rs. 5,125,702 and the amortized value had also been understated.	Action will be taken to make the relevant corrections by the final accounts of the year 2018.	Records should be maintained in order to identify the maturity of tea plants and assets should be identified accordingly, and the relevant accounting adjustments should be made.
(b)	Although the economic service fees amounting to Rs. 2,790,822 paid for the assessment year 2008/2009 had exceeded the period of 03 years, in which the economic service fees can be offset for the income tax, it had been accounted as a receivable balance without taking steps to write off that value at the end of the year under review.	Necessary steps will be taken to make the relevant adjustments by the accounting report of the year 2018 after consulting the Inland Revenue Department.	Income of the economic service fees should be identified correctly and the accounts should be adjusted.

(c)	Although loans had been provided to the factories owned by this fund from the Welfare Insurance Fund controlled by the fund before the year 2008, only the interest receivable and payable on the loans amounting to Rs. 61,143,439 had been accounted as current assets and current liabilities in the year under review without accounting the loans. Detailed information on the loans and interest provided by the fund had also not been submitted to the audit.	Action will be taken to do the necessary corrections in the future final accounting reports.	The loans provided by the Fund should be accounted.
(d)	Since an updated fixed assets register had not been submitted to the audit regarding the assets of the Fund, the audit could not verify the property, plant and equipment worth Rs. 259,889,359 included in non-current assets and its depreciation cost.	Agree with the observation.	A fixed assets register should be maintained.
(e)	There had been a suspense balance of Rs. 974,291 included in trade and other payables as at the end of the year under review.	Agree with the observation.	The suspense balance should be identified and accounted.
(f)	Although a bank overdraft amounting to Rs. 448,909 related to the local tea shop owned by the Fund had been indicated as a current liability in the financial statements for more than five years, the value had not been included in the ledger and bank statements.	Although steps have been taken to make the relevant correction after the Tea Shakthi Fund was taken over by the Ministry, it has not been possible to do so due to insufficient information available.	The actual bank overdraft balance as at the balance sheet date should be identified and settled.
(g)	Thirty Seven (37) vehicles not owned by the Fund had been included in the fixed assets register of the Fund until 2016 and since Rs. 20,441,551 had been accounted as depreciation provision from 2005 to 2016, the debit balance of retained earnings had been overstated by Rs. 20,441,551.	Necessary steps will be taken to correct the accounts reports of the year 2018.	The vehicles not owned by the Fund and the depreciation of those assets should be removed from the registers.
(h)	The Fund had not taken steps to recover losses from the responsible officers or make the necessary adjustments in the	Agree with the observation.	Action should be taken in relation to the outstanding tea stocks in accordance with 2.2.3

statement of financial performance for the outstanding tea stock of Rs. 7,902,517 which was stated under current assets in the Statement of Financial Position as at the end of the year under review.

of the Public Finance Circular 01/2020 dated 28 August 2020.

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| (i) | The Tea Shakthi Fund had paid Rs. 2,691,326 as lease instalments for 13 vehicles that had been leased to the Small Tea Estates Societies through the intervention of the Tea Small Holdings Development Authority and the Tea Shakthi Fund in the years 2001 and 2002 and it had been carried forward in the financial statements as a receivable balance for more than 15 years and an assessment had been made in relation to the recoverability and relevant provision had not been made. | After further confirmation of the relevant balances, necessary preliminary work is being done to take a decision in the future. | A formal investigation should be conducted and steps should be taken to recover the lease instalments. |
| (j) | The amount of Rs. 19,744,732 to be recovered from a private company from the sale of tea in the periods of 2006 and 2007 had not been recovered even by the end of the year under review and the relevant provision had not been made for this receivable balance, which had been old more than 10 years after confirming its recoverability. | Tea Shakthi Fund has filed a case against the relevant company in the Colombo Commercial Court and a decision has been given in favour of Tea Shakthi Fund. However, the relevant company has filed a case against that decision in the Court of Appeal and the decision on that appeal is scheduled to be given in January 2025. | The debtor balance should be recovered. |

1.5.3 Written Evidence Not Made Available for Audit

	Item	Amount (Rs.)	Evidence not Provided	Comments of the Management	Recommendation
(a)	Trade and other balances receivable	280,646,358	Balance confirmations, detailed schedules and time analysis	Agreed with the Observation.	Detailed schedules and time analysis should be submitted.
(b)	Trade and other balances payable	233,794,136	Balance confirmations, detailed schedules and time analysis	Agreed with the Observation.	Detailed schedules and time analysis should be submitted.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though a sum of Rs. 23,523,059, provided by the factories to the local tea sales outlets of the Fund since before the year 2015 had been indicated as trade receivables in the current assets of the Fund, action had been taken to recover it until the end of the year under review.	Necessary preliminary steps are being taken to arrange further action based on the information available regarding the relevant balances.	Necessary action should be taken to settle the debtor balances.
(b)	Action had not been taken even by the end of the year under review to recover the recoverable amount of Rs. 97,962,620, included as trade and other receivables in the Statement of Financial Position since before the year 2015.	Agree with the observation.	Necessary action should be taken to settle the debtor balances receivable.

1.6.2 Payables

	Audit Observation	Comments of the Management	Recommendation
(a)	Although there had been a miscellaneous creditor balance amounting to Rs. 2,957,414 in the statement of financial position since the year 2015, action had been taken to identify and settle those creditors until the end of the year under review.	Agree with the observation.	Creditor balances should be settled.
(b)	Even though a sum of Rs. 11,843,044 for finished tea provided by the factories to the local tea sales outlets of the Fund since before the year 2015 had been indicated as trade creditors and other payables in the current liabilities of the Fund, action had not been taken to settle them until the end of the year under review.	Necessary preliminary steps are being taken in relation to taking further action according to the information available regarding the relevant balances.	Creditor balances should be settled.
(c)	Subsidized/non-subsidized fertilizer expenses payable and agency fees/tender fees amounting to Rs. 42,975,468 and Rs. 11,814,857 respectively included in the Statement of Financial Position since 2015 had been accounted as other payables without settling them in the year under review.	Agree with the observation.	Creditor balances should be settled.

1.7 Noncompliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non compliance	Comments of the Management	Recommendation
Section 6.5.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003	Although the financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year, the financial statements and draft annual reports from the years 2018 to 2023 had not been submitted to the Auditor General and the financial statements of the year under review had been submitted on 27 February 2024 and the draft annual report for the year 2017 had not been submitted to the Auditor General even by October 2024.	Necessary steps have been taken to rectify the relevant situation in the future.	The draft annual report should be submitted along with the financial statements.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs. 184,465,904 and the corresponding deficit for the previous year had been Rs. 30,529,438. Accordingly, an improvement of Rs. 214,995,342 was observed in the financial result. This increase was mainly due to a decrease in cost of sales by Rs. 140,001,418, decrease in administrative expenses and interest expenses by Rs. 144,345,186 and Rs. 2,343,609 respectively and an increase in interest income by Rs. 597,967.

3. Operational Review

3.1 Uneconomical Transactions

Audit Observation	Comments of the Management	Recommendation
Although more than 15 years had passed since an advance of Rs. 28,311,751 was given to a private institution in 2001 for the construction of the factories at Yatinuwara, Pothupitiya and Bulathkohupitiya of the Tea Shakthi Fund, the work had not been completed and the advances given had been accounted under current assets in the financial statements without taking steps to settle the advances or make adequate provision.	Some of the factories had been constructed, and those projects could not be completed due to non-receipt of the funds agreed to be provided by the government at that time for the Tea Shakthi Fund, and this matter is to be further studied and decided.	Action should be taken to settle the advances given or to review the physical progress and to take action in the future in relation to its efficiency.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	As stated in the observations of the Minister of Finance for the Cabinet Decision No. CP/16/1224/726/015 – I dated 13 July 2016 relating to the restructuring of the Fund, the permanent staff of the Head Office should be attached to the existing vacancies in other institutions under the Ministry with the consent of the Department of Management Services and if there are no vacancies, they should be attached to those institutions on super numerical basis. However, the Fund had paid Rs. 6,936,224 as salaries for 17 Tea Shakthi employees, who had been attached to 06 government institutions even after the Cabinet Decision.	Agree with the observation.	Action should be taken as per the Cabinet Decision and the money paid should be recovered.
(b)	An external party had filed one case against the Tea Shakthi Fund in the District Court, and the Tea Shakthi Fund had filed 06 cases in the District Courts, two land cases and two cases in the Court of Appeal.	The Tea Shakthi Fund has filed a case against them owing to the use of lands belonging to the Tea Shakthi Fund by external parties.	The existing cases should be resolved without delay.
(c)	The withholding tax of Rs. 4,545,276 payable in respect of the assessment year 2002 / 2003 had not been paid or properly settled even by the end of the year under review.	Necessary steps are being taken to carry out further activities after consulting the Inland Revenue Department in this regard.	Steps should be taken to settle the outstanding withholding tax with the consent of the Inland Revenue Department.
(d)	Even though the ownership of the lands, where the Horana Fertilizer Warehouse and Raigam Korala Factory operated by the Fund are located, is currently under the relevant Divisional Secretary and the ownership of the lands, where the Elpitiya, Hiniduma and Passara factories are located is also under the Land Reforms Commission, buildings worth Rs. 81,036,209 had been constructed without legally transferring the ownership of the lands to the Fund.	At present, discussions have been held with the relevant institution to legally take over those lands to the Tea Shakthi Fund and necessary further steps are being taken.	Action should be taken to take over the ownership of the lands.

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| <p>(e) Although the proceeds from the disposal of vehicles should have been credited to the Consolidated Fund, Rs. 4,771,822 received from the disposal of 4 vehicles owned by the Fund had been used to settle a loan obtained by the Tea Shakthi Fund from the Coconut Cultivation Board as per the letter of the Chief Accountant, for Secretary of the Ministry of Plantation Industries bearing No. MPI/ACC/F14/T5F dated July 2016.</p> | <p>Since the Tea Shakthi Fund is a semi-public institution established by the Tea Shakthi Fund Act, No. 47 of 2000, its Board of Directors has the power to sell the fixed assets of the institution and use the income. Accordingly, action has been taken and the relevant incident is a transaction that took place before the restructuring of the Tea Shakthi Fund.</p> | <p>All the income received from the disposal of assets should be credited to the Consolidated Fund as per the Public Finance Circular.</p> |
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3.3 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	After deciding to transfer the functions of the Tea Shakthi Fund to the Secretary of the Ministry of Plantation Industries and to restructure the Fund by the Cabinet Decisions bearing No. CP 16/1224/726/015-I dated 13 July 2016 and No. CP/16/1427/726/015-II dated 17 August 2016, the tea factories of Deniyaya, Gilimale, Raigam Korale and Deraniyagala had been leased to external parties on lease basis. Even though the parties who had obtained the property lease were required to obtain bank guarantees or insurance covers in the name of the Tea Shakthi Fund for the value corresponding to the monthly raw tender leaf capacity as stated in Clause 07 of the lease agreements entered into, the Fund had not obtained bank guarantees or insurance covers from the lessees as at the closing date of the year under review.	There have been practical problems in fulfilling the relevant condition due to the change in the relevant value on the change of the monthly tender leaf price and the need to invest a large initial capital in starting the factories. However, it has been scheduled to review further regarding the inclusion of conditions in the agreements to be signed in the future and to take further action.	Bank guarantees or insurance covers should be obtained from the lessees as per the agreements.
(b)	Although it had been agreed to give 1/3 of the factory profits to the Tea Shakthi Fund when the management of the Hiniduma Tea Factory owned by the Tea Shakthi Fund was transferred to the Kalubowitiyana Tea Factory, that share	Since the Hiniduma factory was in a loss-making state, 1/3 profit share has not been paid to the Tea Shakthi Fund by the Kalubowitiyana Tea Factory Company, and the	Since the approval has been received to legally transfer the ownership of the Hiniduma tea factory to the Kalubowitiyana Tea Factory in accordance with the

had not been given to the Tea Shakthi Fund due to the loss situation of the factory. However, an amount equal to the depreciation value of the fixed assets belonging to the Fund, i.e. Rs. 1,661,828, had been indicated as trade receivables in the accounts since the year 2015.

depreciation of fixed assets belonging to the Tea Shakthi Fund for the relevant period has been indicated as receivables at value.

Cabinet Decision No. CP/19/0743/117/024 dated 19 March 2019, attention should be paid to the practical situation regarding the value indicated in the accounts as trade receivables.