

## **Small Tea Holdings Development Authority - 2018**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Small Tea Holdings Authority (“Authority”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity/ statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, 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 Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

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

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

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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 Authority’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 Authority or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Auditor's Responsibility in Auditing Financial Statements**

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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 Authority'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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over Preparation of Financial Statements**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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<b>Non-compliance</b>	<b>Comments given by the Management</b>	<b>Recommendation</b>
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Although the vehicles and office equipment those had completely depreciated but being used amounted to Rs. 28,532,499 by the Authority had not been revalued and taken in to accounts in accordance with the Standard 03 .	Actions had been taken to revalue the totally depreciated assets through the Department of valuation in the year 2018 as per Sri Lanka Public Sector Accounting Standard No.03 . It is informed that the revaluation adjustment will be made in the financial statements 2019 as per the Accounting Standard.	It should be taken in to accounts obtaining revaluation reports as per the Standard.

### 1.5.3 Accounting Deficiencies

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Audit Observation	Comments given by the Management	Recommendation
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The Tax payable amounting to Rs. 1,861,775 on interest income of the year under review amounted to Rs. 6,649,194 had not been taken in to accounts and the profit had been overstated by that value.	The amount shown in the financial statement as the interest income of the year under review was the amount informed as interest receivable to the Authority from the Bank. From the interest amount stated by that Bank, it is informed that the required adjustments will be made in the year 2019 if the interest taken into accounts was not the accurate interest by inquiring the Bank as per the this query. It is informed that the it was taken in to accounts as value after deducting tax.	Taxes on interest income should be calculated and paid to the Department of Inland Revenue.

### 1.5.4 Lack of Evidence for Audit

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Item	Amount Rs.	Lack of Audit Evidence	Comments given by the Management	Recommendation
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Sundry Stocks	8,600,639	Verification Reports	The sundry stock balance amounted to Rs. 8,600,639 was the opening balance of this year and analytical reports as per the stock items is submitted herewith for that balance. It was noted to reconcile and submit the unidentified balances remained furthermore.	Stock Verifications Reports should be reported for the year-end stock.

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments given by the Management	Recommendation
(a) Section 7 of the Public Administration Circular No. 25/2014 of 12 November 2014	Nine Management Assistants were recruited to the Sports and Cultural Unit established by the Authority without the approval of the Department of Management Services and the appointments had been made on a daily pay basis.	Since, there was no enough employees to deploy for the implementation of the Wewili Sawiya Sport Meet successfully for the year 2018, the experienced employees were recruited on temporarily basis for this with the approval of the Board of Directors and when the relevant programme is over, their service also to be terminated.	Approval should be obtained as per the provisions of the Circular.
(b) Sub-section (1) (a) of the General Contract Act, No. 03 of 1987	Although every Bidder should be registered with the Registrar of General Contract, in case of contract cost exceeding Rs. 5,000,000 , an unregistered bidder had been awarded a contract of amounted to Rs. 9,218,635 .	Since Bidders are allowed to offer Bids with the contracted conditions of the Construction Industry Development Authority (ICTAD/SBD/01-2/Edition January 2007) with the relevant agreement regarding the relevant contract work and the quotations have been submitted by the Bidders in line with that.	Actions should be taken to call Tenders from the Registered Bidders who had registered at Registrar of General Contract.

## 2. Financial Review

### 2.1 Financial results

The operating results for the year under review was a deficit of Rs. 62,748,445 and the corresponding deficit for that in the preceding year was Rs. 129,533,198. Accordingly, a growth of Rs. 66,784,753 was observed in the financial result. The increase in grants received for development activities and decrease of the expenditure relevant to that in the year under review as compared to the preceding year had mainly attributed for this growth.

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments given by the Management</b>	<b>Recommendation</b>
Even though the buildings valued at Rs.71,856,901 had been constructed by the end of the year under review in four Regional Offices, the legal ownership of such lands had not been taken over to the Authority.	There are 49 lands belonging to the institution and the legal ownership is available only for 5 lands thereof to the Authority and it is informed that the discussions are being carried out with the relevant institutions and the Line Ministry to take over the remaining 46 lands and buildings legally to the Authority legally after conducting a complete analysis about this.	Acquisition of ownership of lands which have not been taken over by the Authority.

### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments given by the Management</b>	<b>Recommendation</b>
(a) Out of the amount paid as tea replanting subsidy from the year 2012 to 2016 in five stages, as the farmers who had obtained 577 hectares of subsidy of Rs. 920,127,271 for the first 03 phases it had been impossible to achieve the desired objectives of these subsidies due to not taking the remained subsidy	A mechanism for recovering of subsidies which was paid to farmers who had deployed the lands which were rehabilitated but used for other crops is being prepared and the field officers who had issued	Encourage the farmers who had obtained the subsidies but not made replanting to complete the cultivation activities and to improve the system by identifying the weaknesses of the system.

and cultivating tea and the management had not drawn attention in connection to that.

permits will responsible to make complete these planting activities.

(b) Even though the expenditure made for expansion and instruction training programmes in the preceding year was Rs. 16,561,557 and also it had increased to Rs. 32,360,151 in the year under review, the number of farmers who participated had reduced by 12,363 .

The expansion expenditure has increased significantly in 2018 compared to 2017 due to the underutilization of allocated funds for farmer training programmes in previous years. It is also mentioned that because of maintaining strict supervision on the proper utilization of allocation of funds for farmer training programmes in the year 2018 and in addition, since it can be able to obtain more effective results by the media and propaganda campaigns to aware farmers by allocating more funds from the budget for this purpose and taking actions to make aware the farmers by making payments more effectively for those activities.

Public money should be used economically, efficiently and effectively for relevant purpose.

### 3.3 Underutilization of Funds

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#### Audit Observation

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#### Comments given by the Management

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#### Recommendation

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(a) A sum of Rs. 13,466,664 paid for the payment of fertilizer subsidy for the year under review had been retained without using for the intended purpose.

A sum of Rs. 1700 million was given to us for fertilizer subsidies in the years 2016, 2017, 2018 and has been distributed among 347,106 farmers properly. In some instances, due to inactivation of accounts of these farmers, handing over with errors and defects in account numbers and

Actions should be taken to distribute subsidy funds to the farmers during the anticipated period and send back the unutilized money to the Treasury.

absence of persons in the premises given in the accounts, the money banked had not been credited to their accounts. As a result, the balance remained is indicated in here.

- (b) A sum of Rs. 46,991,226 received for flood relief incentives had been retained in the accounts even by the end of the year under review without being used for the intended purpose.
- Out of the balance remained amounting Rs. 145.9 million, a sum of Rs. 100 million had been returned to the Ministry. It is informed that furthermore the amount of Rs.46,991,226 is consisted in the accounts including the amount of Rs. 45.99 million remained subsequently and the amount of Rs.1.09 million received from the Bank on not claiming and rejection of subsidies.
- The rest of the money should be remitted to the Treasury after using the funds for the intended purpose.

### 3.4 Idle or underutilized Property, Plant and Equipment

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#### Audit Observation

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The cab which was at a cost of Rs. 1,575,000 had been given to a private garage for repairs on 23 February 2016 and that cab had not been repaired and returned up to now.

#### Comments given by the Management

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The vehicle No 52-2605 was handed over to Nawalapitiya Auto Care Institution for renovation under proper procurement procedures and their estimated amount was Rs. 585,000. Before starting the repair the garage owner had informed us the further repairs needed to be done. The advice of the Technical Engineer in this regard was the repairing and driving this car is not cost effective.

#### Recommendation

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Officers responsible for vehicle control should act to repair, or dispose the vehicles in economical, efficient and effective manner.



### 3.5 Projects or Capital Work Delays

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**Audit Observation**

**Comments given by the Management**

**Recommendation**

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Even though the newspaper advertisements were published incurring a sum of Rs. 1,000,563 for promoting the Swabhimani Insurance Scheme as a solution to the problem of the government having to pay constant subsidies for natural crop losses, the programme had been discontinued at the end of the year under review. Therefore, the money spent had become a futile expenditure.

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Since the government has to allocate a huge sum for the damages caused by weather and climate frequently to the crops and financial losses as well to the Small Tea Holders, it had acted with the approval of the Board of Directors to enter these farmers into an insurance policy and although, the initial steps has put in place correctly it is informed that the Project had to be abandoned due to the impossibility to meet the expected targets.

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Before incurring expenditure on projects to do a feasibility study on its ability to perform and plans should be prepared and executed in a manner of achieve the goals.