

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Tea Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the income statement, 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 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 Board 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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

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

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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the Governing Body of the Board ;
- 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.

1.4 Financial Statements

1.4.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Comments given by the Management	Recommendation
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Even though the Board has fully depreciated the assets such as Office Equipment, Laboratory Equipment, Furniture and Fittings and Computer Equipment which are still being used in terms of Paragraph 79 (b) of Sri Lanka Accounting Standard 16 valued at Rs. 48,119,068 had not been revalued and taken in to accounts .	Requests have been made to the Government Chief Valuer for necessary assistance for the revaluation of the Assets of the Sri Lanka Tea Board. Accordingly, the revaluation of all assets is expected to be completed by 30 September 2019 .	Assets should be revalued and taken in to accounts in accordance with Paragraph 79 (b) of the Sri Lanka Accounting Standards 16.

1.5.2 Accounting Deficiencies

Audit Observation	Comments given by the Management	Recommendation
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(a) A sum of Rs. 758,353 that had been provided to the Embassy Offices from Promotion and	It was noted to act properly from the year 2019.	The money provided for conducting the foreign tea promotion

Advertising Fund for conducting overseas tea promotion programmes during the year under review had been taken in to accounts as expenses rather than accounted for as advances.

programmes should be taken in to accounts as advances.

- (b) The Value Added Tax (VAT) amounted to Rs. 889,870 (RMB 33,389.74) that had been refunded to the Board by the Chinese Government for the vehicle purchased for the Chinese Tea Promotion Unit had not been taken in to accounts. Actions will be taken to bring the value Added Tax amounted to RMB 33,389.74 which was refunded to the Chinese Embassy by the Government of China, to the Sri Lanka Tea Board in the year 2019 and taken in to accounts . The refunded Value Added Tax (VAT) should be taken in to account.
- (c) The customs duty and the registration fee amounted to Rs. 898,086 (RUB 12,910.77) incurred for the vehicle purchased in the year under review for the Russian Tea Promotion Unit had not been taken into accounts. The adjustments in accounts relating to custom duties and registration values for the vehicle purchased for the Tea Promotion Unit of Russia have been made in the year 2019. The duty and registration fees incurred at the purchase of vehicles should be taken in to accounts.
- (d) A sum of Rs. 2,411,855 which was remained in the Embassies receivable to the Board had been stated in the statement of financial position and cash flow statement as cash and cash equivalents at the end of the year, instead of shown under debtors. It was taken in to notes to act properly in the year 2019. The amount which was remained at Embassies whereas receivable to the Board should be shown under debtors.
- (e) Despite the construction work of painting of the administrative building which was awarded to a value of Rs. 2,155,202 had not been commenced in the year under review , that value had been taken in to accounts as building repairs and maintenance expenditure. Since the contract was awarded on 07.12.2018 in respect of the related repairs, it has been take in to account as provisions payable for that year. The contract values those were not commenced should not be taken in to accounts.

1.5.3 Unreconciled Control Accounts or Records

Object	Value as per Financial Statements Rs.	Value according to corresponding Records Rs.	Differen ce Rs.	Comments given by the Management	Recommendation
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(a) Balance receivable from the Embassy of Japan	189,839	1,944	187,895	Since the vouchers related to the period from 30.06.2018 to 31.12.2018 of the year 2018, had not received to the Sri Lanka Tea Board from the Japanese Embassy by the date of preparation of the accounts for the year 2018, could not be taken in to accounts. The relevant account adjustments have been made in the year 2019 .	Actions should be taken to be brought the details of Embassy Offices quickly and taken into accounts.
(b) Cash and Bank Balance of the Promotional Bureau of the United Arab Emirates	1,279,771	894,099	385,672	Discussions were held on several occasions with the Chief Accountant of the Ministry of Foreign Affairs. Nevertheless, since it is mentioned as there was no detailed on this, it was taken in to notes to get proper actions in this connection.	The accurate balance to be taken in to accounts by providing the information available in the Board and the transactions should be maintained in an updated manner .

1.5.4 Lack of Evidence for Audit

Item	Amount Rs.	Lack of Audit Evidence	Comments given by the Management	Recommendation
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(a) Advertising and Promotion Fund - Sundry Debtors	643,432	Balance confirmation, detailed schedules	After receiving of confirmation schedules will be submitted for audit.	Arrangements should be made to get the confirmation timely.
(b) Remittances to the French Embassy for the promotions and publicity	758,353	Expenditure Details	The actions will be taken to submit as soon as the information is received from the Embassy.	Actions should be taken to obtain the expenditure details.
(c) Expenditure incurred on the JICA Project	279,507	Documents confirming the authority to incur expenses	Documents pertaining to the Project are attached herewith.	The expenses should be made only with the relevant authority.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments given by the Management	Recommendation
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(a) Even though the amount of Rs. 3,489,773 which had been provided to a factory to pay for the green leaf suppliers in order to maintain a minimum price of Rs. 80 for raw tea leaves in the year 2015, had not been given to the leaf suppliers, that amount was not recovered even by the end of the year under review.	Legal actions are being taken to recover the relevant amount from these factories.	The situation should be rectified carrying out the legal actions immediately.

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| <p>(b) Even though it had been entered in to a decision with the Janatha Estates Development Board and the Tea Board to acquire the ownership of the land in Hanthana where the “Ceylon Tea Museum” is located and write off the balance on behalf of the Rs. 25,000,000 receivable from the Janatha Estates Development Board as per the Notes of the Meeting of Committee on Public Enterprises held on 19 June 2012, the Management had not completed this process until 31 March 2019 .</p> | <p>Even though the Board of Directors of the Janatha Estate Development Board had agreed at the time to alienate the ownership of the land in Hanthana where the “Ceylon Tea Museum” located, that agreement has been withdrawn. Instead of that, they have decided to enter into a 30-year lease agreement with the Tea Board and the discussions have been on going currently.</p> | <p>Actions should be taken to recover the loan balances immediately with both parties agreement.</p> |
| <p>(c) Out of the amount of Rs. 51,604,457 provided to the foreign Embassy Offices for the Global Tea Party in the year 2017, the remaining balance of Rs. 1,884,779 had not been recovered even by April 2019 .</p> | <p>It was noted to collect the receivables as much as possible in the year 2019.</p> | <p>Arrangments should be made to recover the balances from the money allocated for specific purposes as soon as the work is completed.</p> |

1.6.2 Payables

Audit Observation

Comments given by the Management

Recommendation

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| <p>(a) Out of the subsidy received to the Board in the year 2015 from the Treasury amounted to Rs. 6,738,000,000 to pay to the leaf suppliers, in order to maintain a minimum price of Rs. 80 for raw tea leaves, a balance of Rs.1,523,148 had been retained up to the end of the year under review without being remitted to the Treasury from 31 December 2015 .</p> | <p>Since the inconsistencies remained in the bills of raw green leaf supplier's and the payment records of the green leaf dealers have been identified, an inquiry is already being conducted to resolve that issue and after completion of those investigations, arrangements will be made to pay the relevant money to the leaf dealers. Actions will be taken to complete all the payments by 30 June 2019 and if it was impossible to take such actions, that amount will be remitted to the Treasury.</p> | <p>Actions should be taken to expedite investigation activities and transfer the remaining funds to the Treasury.</p> |
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- (b) Even though a sum of Rs. 3,014,243 which was retained from the values of various contracts had exceeded more than two years, arrangements had not been made to settle it. Actions will be taken to make aware the related parties in respect of the Tender Deposits and settle them. Actions should be taken to identify the related parties and settle them.
- (c) Although a sum of Rs. 6,850,840 that had been deposited by the tea factory owners for the payment to green tea suppliers from 01 to 16 years, actions had not been taken to make payments. Out of the total deposits, the deposits older than 6 years was Rs. 3,206,392 and it was difficult to find the details of the suppliers with respect to those deposits. The details of the suppliers for the remaining deposits are currently being settled and actions will be taken to pay them accordingly. If any person appear by confirming his identity to obtain the above amount, actions will be taken to pay that amount. It should be settled.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments given by the Management	Recommendation
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| (a) Sections 13 and 14 of the Sri Lanka Tea Board Act, No.14 of 1975 | Although the levying of Cess should be made by the Board in accordance with the provisions of the Act, the General Treasury had charged the Cess, in contrary to that and the Tea Board Act had not been amended for that. | Even though initially the Cess was levied by the Tea Board in accordance with the provisions of the Tea Board Act, the Treasury has taken over the Cess levying through the Export Development Board Act that had been subsequently passed. Actions will be taken to obtain the required instructions from the Attorney General to make necessary amendments to the Tea Board Act. | Action should be taken as per the instructions of the Attorney General . |
| (b) Public Enterprises Circular No. PED / 12 of 02 June 2003 | Although the Board should prepare a Procedural Manual relating to make Rules for the | The relevant Procedural Manual is being prepared. | The Procedural Manual should be prepared soon. |

Paragraph 9.14	Management of Human Resources and the approval of the Secretary to the Treasury should be obtained, the Manual had not been prepared even by the end of the year under review.		
(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Finance Regulation 835 (2) (c)	Although the assessed rent value of the Chief valuer for the building obtained for the purpose of maintaining the Galle Regional Office on rental basis amounted to Rs. 93,500 for the year under review, though it was taken to a monthly rent of Rs.115,000 exceeding that value, the approval of the Secretary of the Ministry had not been obtained for that in terms of the Financial Regulations.	Since the building where the Galle Regional Office of Sri Lanka Tea Board located, was handed over to the owner on 30 June 2017 and also as it was required to be relocated the Divisional Office definitely on 01.07.2017, it has been taken for rent more than the Assessor's valuation of Rs. 93,500, that is, a monthly rent of Rs. 115,000 and the approval of the Procurement Committee of the Sri Lanka Tea Board and the approval of the Board of Directors has been obtained for this purpose.	When obtaining buildings on lease, actions should be taken in accordance with the Financial Regulations.
(d) Directives of the Committee on Public Enterprises held on 21 September 2018	The Pesticide Chemical Component Analysis Machine purchased in the year 2009 incurring a cost of Rs. 32,132,088 and the CP-3800 GAS Chromatography Machine purchased at a cost of Rs. 5,592,421 which had not been used due to not complying with the Board's expected	An estimate of Rs. 10 million was approved under the Board of Directors Meeting Paper No. 2018/480/288 dated 25.09.2018 to repair and reuse the LCMS Machine. Even though the supply agent of the LCMS and the current agents were called and taken actions to repair the equipment as informed to the Board of Directors at the meeting held on 09.05.2019, action was taken to inform the Board of Directors that the current agents had informed them that they could not issue a certificate in	Verify that goods can be used for the intended purpose and Procurement guidelines should be followed.

specifications, it had remained in idle up to now. respect of reactivating the machine. Accordingly, The Board of Directors had decided to stop the re-repair of this machine. Due to the existing pesticide testing programme in the international market, a LCMS machine purchased earlier has to be purchased. Accordingly, it was informed that the current agents have agreed to obtain the old LCMS machine to them and deduct the full cost incurred for the new LCMS - MS at the time of purchase. The Board of Directors will be made aware of the new proposal and it has been asked to report how this proposal can be implemented in accordance with procurement procedures. Further, an investigation is being carried out by the Commission to Investigate Allegations of Bribery or Corruption also, and actions will be taken on the facts it reveals.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 43,977,748 and the corresponding surplus of the preceding year was Rs. 93,322,795. Accordingly, a deterioration of Rs. 49,345,047 in the financial results was observed. The decrease of revenue by 19.47 per cent and an increase of administrative expenses by 8.9 per cent had mainly attributed to this deterioration .

2.2 Trend Analysis of Key Income and Expenditure Items

The major income and expenditure items in the year under review as compared with the preceding year are as follows.

Item	2018	2017	Variance favorable / unfavorable
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	Rs.	Rs.	%
Income			

Government Grants			
- Recurrent	165,800,000	153,500,000	8.00
- Capital	50,000,000	17,500,000	185.71
Registration fee	179,634,806	183,316,794	(3.65)
Transfer from Advertising and Promotion Fund	12,441,000	45,500,000	(72.65)
Financial Income	103,020,269	109,265,725	(5.72)
Expenditure			

Development expenses	56,439,112	18,780,613	(200.52)
Administrative expenses	382,786,592	351,504,928	(8.90)
Financial expenses	57,486,825	80,863,240	28.91

Even though the amount transferred from the Advertising and Promotion Fund to the income of the Board for the year under review had reduced by 72.65 per cent as compared to the previous year, the basis adopted for that was not revealed to the audit.

The growth of the repair and maintenance expenses by 28.61 per cent in the year under review as compared to the previous year had mainly affected to the increase in the administrative expenses.

2.3 Ratio Analysis

The current ratios for the year under review and the preceding year were at a high rate of 7.62 per cent and 10.25 per cent respectively. The representing of short-term investment fixed deposits of the Advertising and Promotion Fund by 76 per cent out of total current had affected for that. The operating surplus, which was a 13.44 per cent in the preceding year, had been deteriorated to 1.58 per cent in the year under review, due to with the increase in administrative expenses and the decrease in revenue.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments given by the Management	Recommendation
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Even though it had stated by the letter of 06 December 2016 of the Secretary to the Ministry of Plantation Industries that the action should be taken against the officers who had acted improperly in respect of a loss occurred amounting to Rs. 62,603,006, due to failure to launch the "Tea Moments" in an effective manner as commenced without a feasibility study, actions had not been taken accordingly.	It was forwarded to the then Board of Directors by the letter No. PI/3/2/1/SLTB-72 of 06 December 2016 and under the Board of Directors paper No - 2017/461/23 . As a result of the not providing a clear decision at that time by the Board of Directors it was impossible to take further steps.	Actions should be taken as per the instructions presenting to the Board of Directors by the Secretary to the Ministry of Plantation Industries.

3.2 Management Inefficiencies

Audit Observation	Comments given by the Management	Recommendation
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Despite of two buildings had been completed incurring a sum of Rs. 124,037,913 by the end of the year under review, the ownership of the two lands had not been legally vested to the Board.	The Divisional Secretaries have given the authority to the Tea Board to erect the buildings in the two lands and the annual license fee is being paid for these lands.	Actions should be taken to acquire the ownership of the lands immediately.

3.3 Operational Inefficiencies

Audit Observation	Comments given by the Management	Recommendation
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(a) When payment of subsidies for the factories that had been damaged by floods caused by heavy rains in the last year, as a result of payment of more	Actions are being taken to recover the due amount.	- Actions should be taken to recover.

than the amount of damaged stocks shown in the monthly reports (TC5) submitted by one factory, though a sum of Rs. 714,455 had been paid additionally for it, arrangements had not been made to correct it.

- (b) Although it was expected to select 18 exporters for the Brand Promotion Programme and incur a sum of Rs. 400,238,711 for that, agreement with only 04 exporters and despite a sum of Rs. 199,674,721 had incurred selecting a private company for advertising purposes for purpose is expected to be spent for the year under review, contracting with only 04 exporters and despite a sum of Rs. 199,674,721 was paid for advertising designs by selecting a private company for the production and design of the Global Tea Promotion Programme, which was planned to be implemented at a cost of Rs. 08 billion from the Tea Promotion Fund, the expected programme could not be implemented due to non-completion of media activities. Similarly, even though the promotion expenditure also incurred by 18.87 per cent during the year under review compared to the previous year the tea exports had dropped by 2.21 per cent.
- The Global Promotion Programme has not been begun up to now and the initial expenses required for that has been incurred for the design. Therefore, when add the cost incurred to the designs mentioned for the above promotion, the promotion cost has increased. A newspaper advertisement was published calling applications on 02 September 2018 subjected to the approval of the Cabinet of Ministers on 01 August 2018 for the 2018/2019 Brand Promotion Programme. Accordingly, 20 candidates had submitted their applications on 21 September 2018. Accordingly, those applications were approved by the Evaluation Committee which was approved by the Board of Directors of the Sri Lanka Tea Board on 25 September 2018.
- Promotional activities should be carried out in a timely and effective manner.
- Accordingly, receiving benefits for 18 candidates in 2018/2019 was only an eligibility. The approval of the Board of Directors of the Sri Lanka Tea Board for that was on 31 October 2018 and the plans of the applicants who have already finalized the plans are being received to the Tea Board and the agreements are due to be entered in to within the next month.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments given by the Management	Recommendation
----- The office equipment, furniture and fittings, and computers purchased in the year 2015 for the tea sales centres amounted to Rs. 2,899,510 had been remained in idle without use.	----- A portion of the furniture and office equipment mentioned have already been utilized at the Sri Lanka Tea Board and arrangements have been made to sell the remaining items through a newspaper advertisement by calling bids. However, the Secretary to the Ministry of Plantation Industries has appointed a Committee to obtain necessary advices for disposing of a few items offered less than the assessed price and as per the recommendations made by the Committee actions will be taken in respect of those assets in future.	----- Action should be taken to minimize the disadvantaged situations to the Board.

3.5 Delays in Project or capital

Audit Observation	Comments given by the Management	Recommendation
----- Even though a sum of Rs. 885,000 had been incurred for the consultancy service for preparation of an Information Technology System for the tea industry out of the Rs. 260,200,000 allocation made available by the Budget, the pertaining activity had not been commenced by the end of the year under review.	----- The proposals submitted by each bidder are being examined at this stage for the recommendation of the Technical Evaluation Committee to complete the procurement and this procurement can be completed within the next two months.	----- Procurement activities should be periodically carried out as per the plan.