

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Sri Lanka Tea Research Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and combined 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 Finance 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Public Sector 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 of the board.

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 the board 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 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

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with the reference to particular standard	Comments of Management	Recommendation
The total amount of Rs. 1,815,863 of variables, such as adjustments in the previous year, over provision of bad debts, trade and other receivables, creditors and other outstanding balances and accrual balances which had been adjusted to the cash flow statement contrary to the provisions of Sri Lanka Public Sector Accounting Standards 02.	In preparing the cash flow statement, due to a mistake of Rs. 15,000 of the difference between Rs. 19,168 in the year 2018 and Rs. 20,674 in the year 2019 has been included in the cash flow statement. The error was due to the adjustment of the deficit of the year 2019 adjusted to Rs. 151,170 was stated as the adjustment of Rs. 151,157 to the deficit of the year. Due to the adjustment of accrued interest receipts and over provision of bad debts under the trade and other receivables, the change in trade and other receivables in the cash flow statement for the year under review were thousands of Rs. 1,403. The difference is due to the adjustment of various balances of creditors in accrued expense accounts and several accrued expense balances in the creditors and other payable expenses.	Action Should be taken in accordance with the Sri Lanka Public Sector Accounting Standards 02.

1.5.2. Accounting Deficiencies

----- Audit Observation -----	Comments of Management -----	Recommendation -----
(a) In the year 2015, A bus that had been revaluated for Rs. 1,500,000 had been sold in the year 2017, but it was accounted in the year 2018 as a revaluated vehicle. As a result, the number of motor vehicles and the accumulated revaluation in the financial statements for the year under review was over stated than that in the financial statements.	The bus mentioned in the query has been sold in the year 2017 and the relevant accounts have been properly accounted in that year. However, due to the value of the assets revalued in the year 2015 will have to be accounted in 2018, the bus revaluated in the year 2015 will be re-entered into the ledger accounts in the year 2018. Action will be taken to rectify this error in the preparation of final accounts for the year 2020.	Should be corrected the re-accounting of the revaluated value of disposed assets.
(b) Although a cab belonging to the Sri Lanka Tea Board used by the Mathugama sub office was revaluated for Rs. 2,000,000, no action had been taken to ascertain the ownership of the vehicle. However, during the year under review and in previous years, Rs. 990,050 had been capitalized as the repair and maintenance expenses of this vehicle and provision for depreciation of Rs. 40,214 on that amount.	Replacement expenses incurred for this vehicle in the year 2015 have been capitalized as the replacement expenses of high value vehicles will be capitalized. Necessary arrangements are being made to take over this vehicle to the Institute of Tea Research.	The vehicle should be taken over by the board, it should be accounted and the capitalized expenditure revenue should be deducted.
(c) Provisions had not been made in the financial statements for the income tax of Rs. 2,436,076 to be paid on the interest income of Rs. 8,700,272 for the year under review.	Appropriate action will be taken in future after discussion with Department of Inland Revenue regarding income tax payable on interest income. However, withholding tax on this interest income had already been paid.	The amount of income tax payable on interest income should be accounted and remitted to the Department of Inland Revenue.

- (d) Depreciation of fixed assets of St. Coombs Estate and the factory in Thalawakele had been understated of Rs. 706,127 in the financial statements during the year under review. The construction of the project of Save the Children in that estate had been completed in previous years, but the cost of Rs. 1,583,587 had not been capitalized and stated as work-in progress in the financial statements.
- When preparation of the 2020 financial statements, action will be taken to correct the adjustment to be made in respect to depreciation of Rs. 706,127.
- The vouchers amounting to Rs. 1,583,587 stated in the work-in progress account under the project of Save the Children are in the state office and that will be capitalized as an asset by the year 2020.
- Necessary arrangements should be made in the financial statements to correct the shortage of depreciation for the year and the work value of the completed contract should be capitalized on the certificate of the engineer.
- (e) The machines imported by the board for tea processing at a cost of Rs. 4,142,173 in the year 1982 had not been used because, those were not suitable for the project and in the year 2014, the parliamentary Committee on Public Enterprises had directed that the value of these machine will be write off from the books with approval of the treasury. However, the value of these machines had been stated in the financial statements as work-in progress until the end of the year under review.
- At the COPE meeting held on 19 November 2014, approval was sought from the Ministry of Plantation Industries and the Treasury to write off the value of currently unused machine imported at a cost of Rs.4,142,173 in 1982, but it has not yet been approved. We request the approval of the ministry and the treasury to write off and action will be taken in this regard again.
- Should be act in accordance with the directives given by the Parliamentary Committee on Public Enterprises.
- (f) ISO standard certificate of the St. Coombs Estate stated as Rs. 2,381,613 under the intangible assets in the financial statements was not submitted for audit.
- Details of the incurred expenses for the ISO certification of these intangible assets are earlier than 15 years and could not be found. Therefore, action will be taken to deduct this from the accounts.
- Relevant documents to prove the ownership of the assets should be submitted to the audit.

1.6 Receivables

Audit observation	Comments of Management	Recommendation
At the end of the year under review, Rs. 1,655, 762 had been accounted as receivable to St. Coombs estate in Thalawakele from the Sri Lanka Tea Board, Ministry of Plantation Industries and the Small Tea Estate Development Authority since the year 2012, but no action had been taken to recover the money. Also, there was a financial fraud of Rs. 10,423,378 due to internal control weaknesses in the St .Coombs estate and it exists in the debtor balance but, it was not settled until the end of the year under review.	The estate superintendent has been instructed to recover the receivables from the Sri Lanka Tea Board, Ministry of Plantation Industries and the Small Tea Estate Development Authority. After the conducting preliminary investigations to recover the lost amount due to financial fraud and accordingly complained to the Criminal investigation Department. So, necessary action will be taken by that department.	Action should be taken to recover the receivables expeditiously and complete the investigations about the financial fraud without delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of Management	Recommendation
(a) Financial Regulations Code of The Democratic Socialist Republic of Sri Lanka. F.R. 571(3)	Withholding money of Rs. 524,685 for more than 2 years had not been dealt in accordance with Financial Regulation.	The withholding money will be released in future.	Steps should be taken to identify the relevant parties and settle or credit the income if it is confirmed that they are not entitled.
(b) Article 13.3 of Chapter II of the Establishment Code of the Democratic	Appointment of acting should be made in temporary basis until a permanent appointment is made, but	A letter dated 22 September 2020 has been sent to the Department of	Should be act in accordance with the Establishment Code and steps

Socialist Republic of Sri Lanka.	temporary appointed for the post of Senior Accountant and 04 Divisional Heads of the board on acting basis without making a permanent appointment for a period of 3 years to 7 years and have been paid acting allowances of Rs. 1,106,814.	Management Services through the Ministry of Plantation for approval to recruit for the post of Senior Accountant, because there were no qualified candidates applied even though newspaper advertisements have been called for filling the post of Senior Accountant on several occasions. Applications were called internally for interviews for the post of Divisional Head and only two qualified officers were selected by the interview board. A tea research board paper has been sent to obtain the necessary approval from the Ministry of Plantation.	should be taken to expedite recruitment.
(c) Paragraph 8.2.2 of Public Enterprises circular No. PED/12 dated 02 June 2003 and Section 11 of the Finance Act No. 38 of 1971.	The board had invested Rs. 78,598,000 in short term deposits as at 31 December 2019, but had not obtained the approval of the relevant Minister and the Minister of Finance.	Investments in short term deposits were made in the years of 2008 and 2013 with the approval of the Board of Directors of the Institute of Tea Research.	Approval of the relevant Minister and Minister of Finance should be obtained as per the Finance Act and circular.

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| (d) Circular No. TC/RT/CIR/2015/ 11 dated 23 December 2015 issued by the Commissioner of tea in terms of the Tea Control Act No. 51 of 1957. | (i) | According to the circular, refuse tea should be stored in packages in a manner that is not damaged by micro-organisms, moisture and moisture resistant containers should be used, but on the contrary the remaining refuse tea was piled on the corner of the premises of St. Coombs tea factory. | Action will be taken in accordance with the relevant circulars in future. | Should be followed Circular provisions. |
| | (ii) | Although refuse tea should be stored in according to the date of production in such a way as to facilitate compliance with the First In – First Out (FIFO) system when disposing of refuse tea stocks, refuse tea at the St. Coombs tea factory was stockpiled in violation of these regulations | Action will be taken in accordance with the relevant circulars in future. | Should be followed Circular provisions. |

2. Financial Review

The operating result of the year under review amounted to a deficit of Rs. 152,304,330 and the corresponding deficit in the preceding year amounted to Rs. 63,542,018. Therefore a growth of deficit amounting to Rs. 88,762,312 was observed in the financial result which was 140 percent compared to the previous year. The main reasons for this situation were the shortage of 200 percent in the St. Coombs estate and a deficit of 54 percent in the St. Joachim's estate compared to the previous year.

3. Operational Review

3.1 Non-economic transactions

Audit Observation	Comments of Management	Recommendation
(a) Even it had elapsed two years for the Walk in Type Environmental Facility equipment which was imported from India in the year 2017 at a cost of Rs. 14,030,854 under	Together with ministry and the tea board have taken legal action against the company that purchased the equipment for failing to install and delegate the equipment properly.	Legal action should be taken expeditiously and recovered the loss.

the special projects had not been used for research due to the failure of installation, delegation and functioning as expected.

3.2 Management Inefficiencies

Audit Observation	Comments of Management	Recommendation														
(a) It was observed that there were no original vehicle registration licenses for 5 vehicles belonging to the Tea Research Board. 03 vehicles from that had been sent to the garage, but had not been used for more than 02 years because, the failure to complete repairs.	<table border="0"> <tr> <td style="padding-right: 20px;">Vehicle No.</td> <td>Whether the original copy of the certificate of registration exists or not</td> </tr> <tr> <td>-----</td> <td>-----</td> </tr> <tr> <td>32 Sri 1806</td> <td>Does not exist</td> </tr> <tr> <td>32 Sri 3467</td> <td>Does not exist</td> </tr> <tr> <td>32 Sri 5991</td> <td>Does not exist</td> </tr> <tr> <td>253-1215</td> <td>Does not exist</td> </tr> <tr> <td>72 Sri 7900</td> <td>Does not exist</td> </tr> </table>	Vehicle No.	Whether the original copy of the certificate of registration exists or not	-----	-----	32 Sri 1806	Does not exist	32 Sri 3467	Does not exist	32 Sri 5991	Does not exist	253-1215	Does not exist	72 Sri 7900	Does not exist	Registration certificate should be obtained from the department of Motor Traffic. Action should be taken to enhance that idle vehicles into running condition.
Vehicle No.	Whether the original copy of the certificate of registration exists or not															
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32 Sri 1806	Does not exist															
32 Sri 3467	Does not exist															
32 Sri 5991	Does not exist															
253-1215	Does not exist															
72 Sri 7900	Does not exist															
(b) Although the Walahanduwa, Deniyaya and Kottwa regional offices have been constructed buildings at a cost of Rs. 72,031,804, no action had been taken to take over the ownership of the land from the Government or the relevant government institutions to the board even by the date of the audit. Also, 10 vehicles belonging to the Sri Lanka Tea Board had been re-valued and accounted for Rs. 11,232,000, but their ownership had not been transferred to the Tea Research Board.	The Deniyaya land is owned by the Thalawakele Plantation Company and has been applied for the ownership. Yakkalamulla Divisional Secretariat has done all the paperwork required to issue a 30 years of long term tax deed for the Kottawa land. Thereafter, all the documents are to be sent to the Southern Provincial Land Commissioner's Office. Further, the Walahanduwa land is owned by the State Plantation Corporation and the necessary steps are being taken to acquire the ownership. Also, vehicles under the name of Sri Lanka Tea Board are being in the process of taken over to the name of Tea Research Board.	Action should be taken to take over the ownership of land and vehicles mentioned in the financial statements to the board.														

3.3 Operational Inefficiencies

Audit Observation	Comments of Management	Recommendation
<p>(a) Although 50,155 labor days were spent on plucking leaves at St. Coombs estate during the year under review, more than that, 58,116 labor days were spent on various activities such as fertilizing, using pesticides and pruning, weeding. Cost management was poor because, labors were not properly supervised for the relevant tasks. As a result, this estate had a surplus of Rs. 29,444,834 in last year and during the year under review it had a deficit of Rs. 29,548,466. It was a 200 percent deterioration when compared with previous year financial result.</p>	<p>A full-time estate superintendent has not been recruited since September 2018 due to a disciplinary inquiry and a fundamental rights lawsuit against the former estate superintendent of St. Coombs estate and the full time estate superintendent of St. Joachim estate under the Tea Research Institute was temporarily appointed to cover the work on the St. Coombs estate. The estate superintendent covered only few days a week at St. Coombs estate and so that, plucking tea leaves and other various works could not be carried out efficiently under full supervision. In August 2019, a new Assistant estate superintendent was recruited and a disciplinary inquiry and a lawsuit against the former estate superintendent have ended and he has been dismissed from the service. Necessary arrangements are being made to recruit a new full time estate superintendent.</p>	<p>Cost management should be managed under proper supervision and performance should be improved.</p>
<p>(b) St. Joachim's factory in Rathnapura belonging to the board had an annual production capacity of 1,020,000kg of tea during the year under review, but during the year under review, it was observed to be operating at a shortage capacity of 72 percent. This had effected for the increasing fixed cost included in the kilogram of tea and increasing the production cost of made tea kilogram.</p>	<p>The estate was lost during the year under review compared to previous years due to factors beyond the control of St. Joachim's administration. Depreciation in the year 2019 increased by Rs. 536,586 compared to the year 2018 and the increase in labor salaries has affected to an increase in the cost of production. Furthermore, the factory had operated at a low capacity due to the lack of working capital at St. Joachim's estate and deficiencies in the existing machinery.</p>	<p>Production cost should be minimized by utilizing the existing production capacity of the factory.</p>

3.4 Inactive or underutilized property, plant and equipment

Audit Observation	Comments of Management	Recommendation
<p>The total extent of land belonging to the St. Joachim estate in Rathnapura was 141.98 hectares, out of which 53.99 hectares was reserved for tea cultivation and mother cultivation, but it was observed that 32.79 hectares of the land was not re-cultivated. Although 8.74 heaters of paddy lands in the estate have been handed over to the tenant farmers, the board has not received the revenue portion due from those paddy fields for many years.</p>	<p>Existing plantations are old tea plantations and due to the death of tea trees, the area under tea cultivation which can earn income of tea leaves has decreased. However, due to lack of capital, replanting has not been done from many years.</p> <p>The tenant farmers have not been given the tenant portion of the estate since the year 2003 and discussions are underway with the Department of Agrarian Services.</p>	<p>Steps should be taken to utilize the inactive land belonging to the estate and recover the receivable income.</p>