

## Tea Shakthi Fund - 2020

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The audit of the operations of the Tea Shakthi Fund for the year ended 31 December 2020, 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.

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

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As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, each audit entity should 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. The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the Financial Statements for the years 2016, 2017,2018,2019 and 2020 ,which should be submitted to the Auditor General within 60 days after the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/2004 of 24 February 2004, should be presented for the auditor General had not been presented for audit even by the date of this report.

## 2. Audit Observations

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### 2.1 Maintenance of Accounting Books and Registers

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Although the activities of the Fund had been carried out continuously, the ledger accounts, a fixed asset register and a fixed deposit register had not been kept up to date.

### 2.2 The Existence of Assets and Liabilities

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Details of Assets and Liabilities of the Fund as at 31 December 2015 submitted to audit at last are shown below.

Item -----	Value (Rs.) -----
<b>Assets</b> -----	
Non-current Assets	350,332,493
Current Assets	346,460,128
<b>Total Assets</b>	<b><u>696,792,621</u></b>

## Liabilities

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Equity Capital	(111,648,540)
Non-current Liabilities	481,088,651
Current Liabilities	327,352,510
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<b>Total Liabilities</b>	<b><u>696,792,621</u></b>

### 2.3 Deficit income

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Following observations are made.

#### Audit Observation

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(a) The Tea Shakthi Fund had continuously sustained losses whilst the equity capital of the Fund declined gradually. As such, the equity capital of the year 2012 amounting to Rs. 124 million had showed a negative equity capital of Rs. 112 million by the year 2015. In that backdrop, approval had been given to vesting the operations of the Fund to the Secretary to the Ministry of Plantation Industries and to restructure the Tea Shakthi Fund by the Cabinet Decision, No. අමෙ/16/1224/726/015-I dated 13 July 2016. However, according to the information provided, the outstanding premiums and the late fee value to the Fund was Rs. 517,625,223 as at the date of audit, but the tax revenue received up to the year 2020 was only Rs. 130,867,813 and it was only 25 percent of the receivable income.

#### Comment of the Management

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Agreed.

#### Recommendation

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In terms of the Cabinet decision, action should be taken to achieve the objectives as per the agreements.

(b) The arrears amount of Rs.88,094,402 instalments had not been collected from the Horana Fertilizer Storage, the Mawarala Tea Estate and 09 factories as at 31 December 2020 in accordance with the agreements entered into with the lessees regarding the leasing of factories.

Agreed.  
Out of these factories, the Walahanduwa, Mahaweli and Raigam korale factories have been taken over back to the Tea Shakthi Fund and the management has been handed over to a new buyer.

Action should be taken in accordance with the agreements to recover the arrears of instalments.

(c) Due to non-receipt of receivable monthly lease rent on or before the first date of the next month as per the lease agreement, it was observed that a late fee of Rs.429,530,881 ,one per cent of the lease amount has to be charged from 16 lessees as at 31 December 2020.

Agreed.  
The management buyer has failed to carry out the production activities of the factories at maximum efficiency, and supply of adequate leaves to the factory has become a problem in terms of leaf production in the area, and the management fee of the factory is high as it depends on the capacity of the factory. Under these circumstances, the management has decided to seek suggestions from the buyers on how it is intended to operate the factory and to proceed accordingly.

Late fees should be charged in accordance with the agreement.

(d) Even though the Tea Shakthi Factory in Raigam Korale had been leased to the Dikhena Tea Small Holdings Development Society from 10 June 2016 to 10 June 2021, the factory had been taken over again to the Fund in October 2020 due to continued closure. At that time Rs. 7,960,310 had to be charged from the said society to the Tea Shakthi Fund.

The factory has now been handed over to a new lessee with a method of taking over the factory again and recovering the money again before the end of the contract on non-payment of taxes and non-production within the factory.

Action should be taken in accordance with the agreement and recover arrears of leases from the responsible parties.

(e)(i) Walahanduwa Tea Shakthi factory had been handed over to the Kirk Melman Jobs Private Ltd for 10 years from 23 July 2017 by a memorandum of understanding. Even though it had been taken over by the Tea Shakthi Fund again on 01 June 2018 due to non-payment of lease instalments, the outstanding

Agreed.  
The Walahanduwa factory is legally owned by the State Plantation Corporation and the factory and two estate bungalows have been transferred to the Tea Shakthi Fund by a Cabinet decision. Accordingly, after entering into a Memorandum of Understanding

Agreements must be followed to recover lease rent.

arrears of premiums and late fees were Rs. 2,115,000 and Rs. 7,642,200 respectively.

(MoU) to transfer the management to the Kirk Melman company, the State Plantation Corporation took over the estate bungalow and therefore, the company did not resume production of the factory and the factory was handed over again. Accordingly, after substituting the 06 months security deposit held by the relevant institution for the arrears premium, the balance amount to be payable and the late fees for the same have been mentioned.

(ii) After takeover of the factory again, it had been handed over to the Brombill Orthodox Company under a Memorandum of Understanding (MoU) for tea production for a period of 10 years from 09 September 2019. Arrears management fees and late fee of Rs. 1,240,000 and Rs. 82,533 respectively had to be charged to the Fund by 31 December 2020.

Agreed.

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The factory had been out of production for a long time and therefore, it was unable to carry out the basic repairs required to resume production and to commence production on the prescribed date due to consumption of a long time due to the Corona pandemic started in March 2020. As a result, payment of first 03 lease instalments was neglected, but these instalments are still being paid regularly.

(iii) According to a letter of Director of Brombill Company dated 16 October 2019, equipment worth Rs. 1,500,000 had not been handed over to the new management by the Tea Shakthi Fund.

Agreed.

Prompt action should be taken to hand over all assets, including the factory, in writing to the lessee.

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

Following observations are made.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Treasury Circular No. 842 dated 19 December 1978	The Tea Shakthi Fund should have prepared and maintained a fixed asset register regarding its immovable and movable assets, but had not acted accordingly.	A register of fixed assets owned by the Tea Shakthi Fund had been maintained, and it has not been updated. However, the Government Valuation Department has been informed in writing to take necessary measures to reevaluate all the fixed assets of the Tea Shakthi Fund and after those relevant measures are being taken to prepare an accurate fixed asset register.	Action should be taken to prepare and maintain an asset register in accordance with the Circular.

## 3. Operational Review

### 3.1 Management activities

Following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) The objective of restructuring the Tea Shakthi Fund was to provide benefits to the shareholders from income generated by the leasing the factories and to take action to repay the amount of Rs. 135 million, spent on factory activities, from the Welfare Insurance Fund to the same fund and to credit the remaining lease income to the Ministry of Finance. However, the fund could not reach the aforesaid objectives, even though about 04 years has been lapsed from year 2016, when the Fund had been restructured, as it was failed to obtain income from leasing the factories as expected.	The objectives of restructuring the institution have not been achieved within the expected time frame due to non-receipt of leases and management revenue in the expected manner. However, at present the relevant fund is being built by investing around Rs. 115 million, generated through lease and management income, in fixed deposits to build the Welfare Insurance Fund of Rs. 135 million, and it is expected to achieve the desired goals in due course.	The purpose of restructuring should be achieved as per the decision of the Cabinet of Ministers.

- (b) The members who have full membership of the Tea Shakthi Fund and comply with the eligibility criteria will be covered under the said rules and regulations, and even though the payment of insurance benefits has been transferred to the Tea Small Holdings Development Authority from the year 2017, the annual insurance premium is currently paid by the Tea Shakthi Fund. Accordingly, the insurance of Rs.12,169,673 had been awarded to the Merchant Bank of Sri Lanka Insurance Company for a period of one year from 01 March 2020. However, even though the insurance cover was transferred to the Allianz Insurance Company from year 2017 to February 2020, the amount of benefit was Rs.9,571,877 ,which should be received from that company ,but has not yet been received and the insurance benefit value of was Rs. 1,900,000 ,which should be obtained by agreeing with the insurance company even though not entitled due to late application. Similarly, the Internal Auditor of the Tea Small Holdings Development Authority had identified that although Rs. 1,340,000 had been received as benefits from this insurance company, the Welfare Insurance Division had not paid the relevant amount to the beneficiaries.
- Approval of the Cabinet of Minister Insurance Project implemented by the Tea Shakthi Fund as per the Cabinet Decision dated 05 July 2016 received for the Cabinet Memorandum No. 16/1224/726 / 015-1 ,submitted by the Minister of Plantation on 21.06.2016 regarding the restructuring of the Tea Shakthi Fund, under the Tea Estate Development Authority. Accordingly, the relevant situation has arisen during the period when the project is being implemented under the Tea Small Holdings Development Authority, and further actions will be taken by the committee appointed to look into the issues regarding the Tea Shakthi Fund and take proposals on how the institute should be run in due course.
- Further action should be expedited by the committee appointed against the parties responsible for non-receipt of arrears of insurance benefits.
- (c) As per section (07) of the lease agreement entered into for giving factories belonging to the Fund on lease, although the party taking the factory on lease should have obtained an insurance cover in the name of Tea Shakthi Fund, value of which should have been commensurate with the value of fresh tea leaves capacity of the factory at the start of the production, 09 factories had not furnished the relevant insurance covers.
- As per lease/management agreements, Bank guarantees should be obtained in the name of Tea Shakthi Fund on the capacity of monthly fresh Tea leaves and it should be obtained by the second party that is obtaining the factory on lease in the name of the first party which is having the buildings of the factory, machines and machinery and the factory premises including generator system with equipment.
- Lessees should be encouraged to obtain insurance covers in the name of Tea Shakthi Fund as per lease/management agreements..

Accordingly, certain management/lease lessees had obtained the relevant insurance cover and submitted to the institution and bank guarantee had not been furnished.

- (d) Operation of tea production at the Mawarala tea factory had not been started for 3 years or from the day of obtaining on lease till January 2021, reasons such as the acute financial crises and factory becoming unsuitable for tea manufacturing process owing to the dilapidation of its buildings and machine and machinery, had been cited to avoid paying taxes in arrears. Agreed Taxes in arrears should be recovered from the responsible parties by acting upon agreements.
- (e) An incident involving two deaths, one person being seriously injured and drug taking had taken place on 15 May 2020 in a hostel in Horana Fertilizer Store premises. It was observed at the audit that the attention should be paid towards ensuring the safety of property and avoiding the chances of misusing property.2020 Agreed. Although the two parties have agreed as per the agreement that all responsibilities of employees during the agreement period are assigned to the lessee by the Management, the lessee has been informed in writing that a situation of this nature should not be occurred in future. Action should be taken to avoid the occurrence of such situations.
- (f) Although the Geleemale Tea Shakthi factory had been given to a private lessee for a period of 10 years from 24 November 2016, it was observed as per information recorded in files that no any production had taken place for 21 months in this factory and even in months the production had taken place it had been operated at less than 50 per cent of its capacity. Further, as per the information provided to the Fund it was observed that the lease agreement cannot be maintained for 6 years by reason of not being able to cover the expenses from the operation income and inability of continuously obtaining enough fresh tea leaves due to the low price given at the tea auction for produced tea and due to the low price given to tea suppliers. Agreed. Future action will be taken based on the recommendations given by the Committee in respect of issues occurred in the Fund The lease agreement should be cancelled as per the agreement and should be given to new lessees.

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| <p>(g) Although the management of the Deraniyagala Tea Shakthi Factory had been given on lease to the Rathnapura Plantation (private) limited for a period of 10 years from 28 December 2016 to 27 December 2026, it was observed as per the Assistant Factory Officer letter dated 14 September 2020 that the color separation machine belonging to the Tea Shakthi Fund was lying idle without being used at the factory.</p> | <p>Agreed.<br/>Since factory lessees have been selected based on the quotations furnished by them in accordance with values of the machine and machinery and buildings of the factory prevailed at the time of handing over of it, as per the agreement, the Fund cannot, without the consent of the lessee and before the agreement period expires, take action regarding machines and machinery that are not used based on the fact that the machines were not used.</p> | <p>The relevant authorities should take action to protect the assets and the assets that are not used should be given to some other factory in a productive way.</p> |
| <p>(h) Two cases had been filed against an external party regarding a part of land belonging to the Mahaweli Tea Shakthi tea factory and against construction of a garage on a block of a land of 5.41 perches belonging to the Balangoda Tea Shakthi tea factory. the land</p>   | <p>Agreed.</p>   | <p>Action should be taken to ensure that no external parties access the factory premises.</p>  |
| <p>(i) A loan amount subject to a maximum limit of Rs.07 lakh had been provided under the project of activation of inactive factories, to private factories that accepted the management from the Tea Shakthi Fund and 05 cases had been filed to recover the money that was owing to the Tea Shakthi Fund after the expiration of the agreement period.</p>  | <p>Cases have been filed against all factories from which loan in arrears owed under the relevant project, and action has been taken to recover the loan amounts that had been given in respect of certain factories through court verdicts.</p>   | <p>Action should be taken to recover all loan amounts through successful legal action.</p>   |
| <p>(j) Compensation amount of Rs. 1,565,370 under Labour Tribunal verdict order and Compensation amount of Rs.2,597,675 related to a arbitration case had to be paid to the employees from the Tea Shakthi Fund.</p>  | <p>Agreed.</p>   | <p>Management should ensure that legal procedures are followed in paying the compensation following the termination of service.</p>                                  |



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| <p>(k) No action had been taken by the first lessee party of Raigam Korala Tea Shakthi factory to settle a sum of Rs.49,417,999 which was to be settled during the period of lease, comprising electricity bills in arrears, trade creditors brokers loans, Pradeshiya Sabha fees, taxes to be paid to the Tea Shakthi Fund. As per section 9 (1) of the lease agreement, the new lessee party had agreed to pay the total electricity bill in arrears to re- obtain the disconnected electricity connection and to pay back in 5 years the total credit amount of Rs. 23,302,827 in arrears to be paid to the small tea holders. However, it was observed at the audit that although the new lessee part had agreed to pay various outstanding amounts of the former lessee, no action had been taken even to pay the outstanding rent.</p> | <p>Agreed</p>  | <p>Proper steps should be taken as per the agreement following the studying of reasons that led to the non settling of the agreed payments</p> |
| <p>(l) Management of the Kotmale Tea Shakthi factory had been handed over through a memorandum of understanding for 10 years to the Raigam Plantation Private Limited from 30 January 2017 to 29 January 2027. The following deficiencies were observed related to that.</p>   |                |  |
| <p>(I) It had been found at the physical inspection carried out on 09 September 2020 by the Management Assistant of Tea Shakthi Fund that the factory had been closed and as per the Assistant Tea Commissioner letter dated 25 January 2021 it had been reported that this tea factory was not operational at the inspection of tea factories.</p>  | <p>Agreed.</p> | <p>This factory should be leased again by taking action as per the agreement.</p>  |
| <p>(II) The electricity bill to be paid to the Ceylon Electricity Board for the month of January 2021 was Rs.699,363 and however it was observed that the lessee had avoided paying the electricity bill.</p>  | <p>Agreed</p>  | <p>Action should be taken to recover after studying the reasons that led to non-settling</p>   |

of agreed upon payments as per the agreement.

<p>(III) This Tea Shakthi tea factory has been established on block of land obtained by the Sri anka Mahaweli Authority on a lease basis in terms of provisions of the State Land Ordinance , and taxes are annually paid to the Mahaweli Authority by the Fund. Accordingly, a sum of Rs.1,204,335 had been paid as taxes by the Tea Shakthi Fund to the Mahaweli Authority related to the year 2019 and this sum has to be revised and pay for the year 2020.Accordingly,the number of outstanding electricity bills due to the transfer of the factory to an external party, and the taxes revised every 5 years that have to be paid to the Mahaweli Development Authority have become burden of expenditure to the Fund,and it was observed at the audit that the assets of the factory which are lying idle are getting destroyed.</p>	<p>Agreed. Action has been taken to transfer of the estate bungalow which is not required to the factory to the Sri Lanka Mahaweli Authority and thereby to get reduced the tax amount that has to be paid annually. Future action will be taken as per the recommendations of the committee appointed regarding the factory by now.</p>	<p>Action should be taken to recover the agreed upon payments.</p>
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### 3.2 Resources Released to Other Institutions

Audit Observation	Comments of the Management	Recommendation
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<p>As per stated in the recommendations of the Minister of Finance for the Cabinet Decision No අමප/16/1224/726/015-I dated 13 July 2016 whereby approval was given for the restructure of the Fund, where permanent officers are attached to institutions which are under the purview of the Ministry, although action should be taken to pay salaries and wages on the consent of the relevant institution and on the availability of</p>	<p>Agreed. The driver has seen retained for the vehicle No GG-6407 belonging to the Tea Shakthi Fund, and that vehicle together with the driver has been attached to that institution on the requirement of the Tea shakthi welfare division which has been transferred to the Tea Small Holdings Development Authority.</p>	<p>The salaries paid to officers released to an external institution should be refunded.</p>

provisions in the said institutions, in contravention of this, three Management Assistant Officers had been released to the Rubber Development Department while one driver had been released to the Tea Small Holdings Development Authority and a sum of Rs.1,459,614 in 2018 and a sum of Rs.1,822,298 in 2019 had been paid from this Fund as salaries to these officers. And also a sum of Rs. 1,587,324 had been paid in 2020 to the above two Management Assistant Officer and the Driver.

Other officers have been attached taking into consideration the service requirement prevailed at that time at the relevant offices and action is being taken to discuss with the relevant institutions and review the situation in future.