

Tea Small Holdings Development Authority - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tea Small Holdings Development Authority (“Authority”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and 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 Authority as at 31 December 2020, 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 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 of the Authority.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism 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 the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the 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 Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to the paragraph 129 (c) of the Public Sector Accounting Standards No. 01 of Sri Lanka, although supporting information for items presented on the face of statement of financial position, statement of financial performance, statement of changes equity and cash flow statement, in the order in which each	It is observed that the financial statements are prepared in the new format without changing the reference numbers along with the schedules on the face of Statements of Financial Position, Statements of Financial Performance and Cash Flow Statements. Accordingly, the financial statements for the year 2020 were also prepared in accordance with the Public Sector Accounting Standards and prepared with the schedule numbers unchanged to suit the previous years. As suggested by the audit observations, it	The financial statement should be submitted in accordance with the Standard.

statement and each line item is presented, it had not been done so. was informed that the numbering of schedules will be made in order in preparing the financial statements for the year 2021.

- (b) The fully depreciated but further used Head Office Generator including Equipment at a cost of Rs.1,147,100 had not been disclosed in the financial statements as per paragraph 92(b) of the Sri Lanka Public Accounting Standard No.7 and the estimated error in these assets had not been revised in accordance with Sri Lanka Public Sector Accounting Standards 03 and restated in the financial statements. Agreed. The asset revaluation of the Authority was carried out with the assistance of the Valuation Department. Accordingly, it was noted to make adjustments in the financial statements according to the revalued amount in the year 2021. The effective lifetime of the assets should be reviewed.
- (c) According to paragraph 49 of the Sri Lanka Public Sector Accounting Standards No. 7, although when re-valuating the property plant and equipment items, the entire asset class of that asset should be fully revalued, only 18 out of 36 vehicles, furniture and fittings and office equipment belonging to the Galle Regional Office had not been re-valued. Also, the value of Rs.38,815,350 of lands owned by the Authority as stated in the financial statements had not been revalued after 31 According to the paragraph 49 of the Public Sector Accounting Standards No. 7, although the entire Property Plant and equipment class should be completely revalued when revaluating the Property plant and equipment, assets purchased in the relevant year were not revalued at the time of the revaluation. Action will be taken to reevaluate and adjust the non-revaluated assets in preparing the 2021 financial statements. Vehicles that were not included in the vehicle revaluation for the year 2020 were recorded for the revaluation in the year 2021. As recommended by paragraph 47 of the Sri Lanka Public Sector Accounting Standards 7, it is stated that Property Plant and equipment should be revaluated every 3 or 5 years. The last land revaluation was carried out by two The entire class of Property, Plant and Equipment should be fully revalued and accounted according to the Standard. Also, land should be revalued every three or five years.

December 2005. private valuers for a considerable sum of money. However, due to the limitations on the annual allocation, such works could not be done as per the Standard. However, the Valuation Department had been requested to conduct a revaluation of lands owned by the Authority by the year 2020.

- (d) Although the Authority receives annual aids and grants from the Treasury and other government agencies, the accounting policy for accounting for such aids and grants was not disclosed in the financial statements, including the terms of the aids and grants. The value of aids and grants received by the Authority only during the year under review was Rs. 1,088 million.
- In addition to presenting in the financial statements, it was also noted to disclose in the accounting notes of the year 2021 as indicated by the audit observations.
- Policies relating to the accounting of aids and grants and conditions of granting aids should be disclosed in the financial statements.

1.5.2 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) The outstanding balance of Rs.6,664,321 due up to 2019 for the arrears of 102 vehicles which were given on a loan basis in 1998 to the Tea Small Holdings Development Societies had been written off from books without the approval of the Treasury. The proceeds received from sales of 23 vehicles had been set off to the balance of Rs.9,207,958 to be paid to the Treasury erroneously and the balance of Rs.2,491,162 had been transferred to the other	In the financial statements for the year 2019, the amount of loans still due from the societies was accounted as restructured vehicle loans and it was accounted as to be payable by acquiring the vehicles which loans were unpaid by the societies because the value of the vehicles sold must be settled with the Treasury. However, it was stated under the observations of the 2019 audit report that the relevant amount	Adjustments should be corrected in the 2021 financial statements and proceeds from the sale of vehicles should be remitted to the Treasury.

income account. Accordingly, the revenue for the year under review had been overstated by that amount in the financial statements.

to be settled from the restructured loan balance had not been identified and adjusted in the accounts. Corrected it and made adjustments in the 2020 financial statements. Although the adjustment was disclosed in the accounts, it was erroneously stated as a set-off balance.

Accordingly, it was made notes to make corrections and adjustments as proposed in the 2021 accounts.

- (b) The income tax payable amounting to Rs. 1,302,679 on interest income of Rs. 5,427,829 during the year under review had not been stated in the financial statements.

Tea Small Holdings Development Authority is an authority established under Act No. 35 of 1975. The primary purpose of this authority is not to make a profit and it provides support services to improve the living standards of tea smallholders. The Authority is therefore exempt from paying taxes. Also, the value after deduction of withholding tax, which is directly applicable to interest income, is accounted as interest income. It was informed that the tax amount of Rs.1,302,679 on interest income shown in the observations had not been notified by the Department of Inland Revenue as a payable amount or tax evasion.

Income tax payable on interest income should be calculated and paid to the Inland Revenue Department.

- (c) Although the balance amount of Rs.21,335,907 out of the amount given to the Authority in the year 2016 for the payment of subsidies to the farmers under the Tea Fertilizer Project and the balance amounting to Rs.46,991,673 out of

The balance amount of money after payment of relief provided for the lands affected by the floods in the year 2017 had been paid to replanting, new cultivation and crop vacancy reliefs by informed to the

The balance after the payment of the subsidy should be remitted to the Treasury and not spent without the approval of the

the amount given to payment of a subsidy for the damage caused to small tea estates due to the floods in 2017, should be remitted to the Treasury, it had been adjusted to the accumulated surplus as a prior year adjustment without being shown as liability in the financial statements. Therefore the liabilities of the Authority had been understated by the above amount and the cumulative surplus had been overstated.

Ministry with the approval of the Board of Directors. Therefore, the amount of Rs.46,991,673 which was only a nominal value and it was a balance shown in the account due to non-adjustment of entries in the relevant year. A sum of Rs.1,275.95 million had been paid by the Regional Offices as Tea Fertilizer Subsidy for the year 2016. Out of those payments, a sum of Rs.21,335,907 had not been cashed by presenting cheques received by farmers. That money had been used to purchase tool kits by the approval of the Board of Directors to encourage tea smallholders who complete their cultivation on time. Action had been taken to disclose the adjustments by entries transferring to the Retain Earnings Account instead of carried forward these nominal balances further.

1.5.3 Un reconciled Control Accounts or Records

Subject	Management Comment	Recommendation
Although a difference of Rs.926,505 was observed in comparing the financial statements with the financial statements of the relevant Regional Offices relating to the four Objects, the action had not been taken to compare those differences and adjust to the financial statements.	Such a difference is not observed in the study of accounts. Relevant schedules had been submitted.	Existing changes in financial statements and accounts of Regional Offices should be compared and corrected.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) It was observed in the audit that the interest income of Rs.3,109,378 was receivable until at end of the year under review on behalf of seven-day call deposits of Rs.24,690,000 in the Head Office had remained without being invested. Further, it was observed in the audit that these seven-day call deposits which are shown in cash and cash equivalents had existed for a period ranging from 365 days to 2,949 days.	The money invested in the seven-day deposits will be evaluated by a committee and a decision will be taken to invest in the three months fixed deposits. Accordingly, It was informed that the process is going on to investing the money required in short period in seven-day call deposits and unwanted money in such a manner are being invested in fixed deposits.	Excess money should be invested in a way that benefits to the Authority.
(b) The loan amounting to Rs.5,916,589 had been given to four private factories by the program of providing Color Separators to tea factories in 1998 could not be recovered from 2016 until the end of the year under review.	Color Separators were provided on loan basis for the introduction of new technology to tea factories in the year 1998. Out of it, out of the amount of Rs.5,916,589 due from 04 factories, a court case is being conducted as a legal action on dues from Eriyagala factory. It is expected to recover a sum of Rs.2,436,448 from it. It had also been informed that the money due for the machine given to the Galle Co-operative Society will be given priority to settle the money to the Authority in the realization of liabilities after liquidating the assets of the relevant Co-operative Society. It was informed that	Action should be taken immediately to recover from factories those have capability to repay and the closed factories should be further examined by a special committee and an appropriate decision should be taken.

due to close of the remaining 2 tea factories, it had become impossible to recover money.

1.6.2 Payables

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) The remaining balance of Rs.13,812,613 had been retained in the accounts without being remitted to the Treasury by the end of the year under review given for payment of a subsidy to farmers in the Regional Office area such as Head Office, Nuwara Eliya, Ratnapura and Kegalle for soil conservation.	As payment of subsidies for Soil Conservation is an activity within the Authority's Action Plan, remittances were not made to the Treasury. It was informed that the money will be used for the payment of subsidies in the future.	The balance of the subsidy given for soil conservation should be remitted to the Treasury and not spent without the approval of the Treasury.
(b) Although the procurement had been awarded to a private company for the purchase of 4,924 metric tons of organic fertilizer in 2019, the procurement had been stopped in the same year as the supplied fertilizer did not comply with the requirement. However, a sum of Rs.7,377,661 was accounted as payable to the above company during the year under review and evidence had not been filed to confirm the accuracy of the quantity of fertilizer were supplied.	Although the supply of 4,924 metric tons of compost fertilizer had been handed over to a private company, the agreement signed with that company was on 11/09/2019. Therefore, this fertilizer had to be used only for the seedlings planted in the 2019 Maha season. Accordingly, only 601.5 metric tons of fertilizer had been given to the farmers by that institution at the request of the farmers. The relevant money had been paid for fertilizer after testing of samples by the Sri Lanka Tea Research Institute. The money was released for payment after checking the document signed by the farmers stating that they had obtained this amount of fertilizer.	Action should be taken to provide compost fertilizer to the farmers keeping records under the direct supervision of the Authority.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 681	Although advertising on television should be done after obtaining the prior approval of the Secretary of the relevant Ministry in cases where it is considered absolutely necessary, a sum of Rs.1,741,880 had been spent during the year under review for such television advertisements without prior approval.	This payment for the year 2019 was not included in the accrued expenses due to the omission of information. A Letter of Demand had been sent that it will take legal action against the authority for not receiving the money due to the relevant TV channel. It was kindly informed that the payments were made with the special approval of the Accounting Officers of the Authority in accordance with FR 115 as the relevant service has been obtained correctly.	Prior approval of the Secretary of the relevant Ministry should be obtained in accordance with the Financial Regulations for advertising activities.
(ii) F.R. 682	Although heads of institutions are prohibited from publishing newspaper supplements and advertisements featuring politicians and political parties, the action had not been taken regarding the payment amounting to Rs.632,475 to Wijaya Newspaper (Pvt) Ltd. during the year under review for published an advertisement on 08 September 2019.	It was informed that no newspaper supplements or advertisements had been published in the year under review relating to F.R. 682. It was informed that released of payments had been made for the expenditure relating to 2019 included in the accrued expenses.	Advertising should be incurred subject to the provisions included in the Financial Regulations.

(iii) F.R. 880(i)	<p>Although officers who are administratively responsible for, or who under delegation are entrusted with, the receipt or custody of public money, revenue stamps or stores, or the disbursement of public money or the issue of stamps or stores and those who certify vouchers or sign cheques on Government Account will be required to give security in accordance with the Public Officers (Security) Ordinance for the faithful discharge of their duties, only Head Office Cashier gave security according to Financial Regulations.</p>	<p>As per F.R.880 (i), the steps will also be taken in the future to obtain securities from officers who certify vouchers and sign cheques in accordance with the Security Ordinance.</p>	<p>The government officials should be made Securities subject to the provisions of Financial Regulations.</p>
<p>(b) Public Enterprises Circular No. PED / 12 dated 02 June 2003 and Section 11 of the Finance Act No. 38 of 1971.</p>	<p>Although the Authority had invested Rs.113,013,766 in fixed and short-term deposits as at 31 December 2020, consent of the relevant Minister and the Minister of Finance had not been obtained for that.</p>	<p>As mentioned in the previous audit reports, these accounts were opened in connection with employee Gratuity payments. Approval for these investments had been obtained from the Board of Directors and the Deputy Secretary to the Treasury.</p>	<p>When investing money, the approval of the relevant Minister and the Minister of Finance should be obtained.</p>
<p>(c) Paragraph 3.2.2 of the Public Enterprise Circular No. PED1 / 2015 and dated 25 May 2015</p>	<p>Although in special cases where the monthly fuel allowance is not sufficient the additional fuel expenses incurred after obtaining the approval of the Board of Directors can be reimbursed, the General</p>	<p>Subject to paragraph 3.2.2 of Circular No. PED / 2015 dated 25 May 2015, a board paper had submitted to the Board of Directors on 01.08.2017 for approval to reimburse the fuel expenditure in case of insufficient monthly fuel</p>	<p>Additional fuel costs incurred in special cases should be reimbursed only with the approval of the Board of Directors as per the Circular.</p>

Manager of the Authority had reimbursed Rs.303,041 for the year under review and Rs.86,550 up to the month of March 2021 as additionally, the relevant approval had not been obtained as per the Circular.

allowance. The Board of Directors had given the decision given in Annexure 08 attached herewith. Considering the approval of the Board of Directors, the General Manager's additional fuel expenditure reimbursement has been submitted to the Chairman and the payment has been made with the Chairman's approval by considering the approval of the Board of Directors. It is the decision of the Board of Directors as annexed that has enabled it to act accordingly and relevant additional fuel reimbursement is currently being submitted to the Board of Directors to rectify the situation.

1.8 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Action had not been taken to pay income tax to the Inland Revenue Department on annual interest income contrary to the provisions of paragraph 7 of the Inland Revenue Act No. 24 of 2017.	Agreed. It was informed that action will be taken to make tax provisions on interest income due in the financial statements for the year 2021.	Income tax should be paid on interest income as per Inland Revenue Act No. 24 of 2017.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 406,018,644 and the corresponding deficit in the preceding year amounted to Rs. 78,799,836. Therefore an improvement amounting to Rs. 484,818,480 of the financial result was observed. The government grant increased by Rs. 460,564,538 , operating expenses and employee gratuity allocations decreased by Rs.33,297,481 and Rs. 27,446,273 respectively were the main reasons for this improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although subsidies for the development of tea estates had increased by 25 per cent compared to last year in anticipation of increasing the contribution of tea smallholders with less than 10 acres, it was observed production in the tea smallholder sector decreased by 8.8 per cent and according to this, the contribution to national production decreased from 75 per cent to 73.85 per cent.	Drought in the first quarter of 2020 had caused significant damage to the production of the tea smallholder sector. Especially in this situation, the program had not been prepared to face to the drought condition, such as artificial irrigation systems on the lands of the tea smallholder sector. The main reason for this is that small tea farmers cannot afford the initial cost of setting up such artificial irrigation systems. In the first quarter of 2021, tea production in the tea smallholder sector grew by 17 million kg. Also, in order to face this drought, artificial irrigation systems should be established in the tea small holdings lands and better agricultural practices should be improved by shade cultivation in the tea lands. For this, at the moment in this year, the Authority is implementing a program to provide a subsidy of Rs.100,000 per acre for the establishment of artificial irrigation systems and to provide free seedlings for shade cultivation.	It should be closely monitored whether these cash and material subsidies are flowing to the tea smallholders in proper manner and whether they are fully utilized for the relevant purpose.
(b) Although in order to maintain constant tea plantation lands area with the maximum yield, it should be replanted 2 per cent or 2,300 hectares per year according to the national policy, out of the target area of 800 hectares for tea replanting in the year under review, only 648 hectares was replanted.	Tea replanting targets had been set for the 3 and 4 quarters of 2018 and the 1 and 2 quarters of 2019 based on the area of land prepared. Accordingly, the tea replanting target for 2020 should be 870 hectares based on the performance values of 677 hectares under 2019 and 196 hectares under 2019 and that value is targeted at 800 hectares. Out of that target, the severe drought in January 2020 and the Corona pandemic in the first quarter of 2020 had adversely affected to the planting process. The scarcity of plants in the field had also had some effect on this. Action will be taken to fulfill this plant requirement from the existing 500 Tea Nurseries project.	According to the national policy, 2300 hectares or 2 per cent of tea should be replanted per annum to maintain the stable area of cultivation.

3.2 Operational Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Although according to the Authority's 2020 Annual Report, 7,077 hectares had been subsidized as the first installment for land preparation under the Tea Replanting Subsidy from 2012 to 2018, the area under re-cultivation was only 5,244 hectares.	The replanting was not done in 1833 hectares of land due to non-receipt of funds from the Treasury on time and postponement of planting by farmers due to personal reasons.	The persons who received subsidies should be forwarded to re-cultivation.
(b) According to the Annual Report, the shoots twigs production from mother bushes cultivation in the year under review had achieved only 51 per cent of the annual target and expenditure had exceeded the income of the mother bushes cultivations established in the Galle, Matara, Nuwara Eliya, Kalutara and Hanthana regional offices.	It was informed that the annual production of shoots twigs from mother plants had not been able to reach the target level by 2020 due to the existing mother plants are being more than 21 years old and the drought weather condition in the year was affected of production of shoots twigs by the mother plant in the year 2020.	Steps should be taken to increase the production of shoots twigs through mother bushes cultivation.
(c) Although the Tea Nursery Management Guidelines emphasize that corporate nurseries maintained by the Authority should at least cover the cost of production, the income of the Mawarala and Nelligolla tea nurseries was not enough to cover the expenses. Also, although the death rate of tea plants in tea nurseries should be maintained at less than 5 per cent, the death rate of tea plants in tea nurseries was between 19 per cent and 70 per cent as of 31 December 2020.	The plant death rate should be maintained at 5 per cent and as an alternative to this, approval had been given to start and maintain calcification nurseries. Failure to follow such alternative plans had resulted in an increase in plant death in those nurseries. Steps had already been taken to prevent this situation in the future.	According to the nursery management guidelines and alternative plans, the plant death rate should be kept at 5 per cent.

- (d) A special project of '500 nurseries' had been launched to establish special tea nurseries for planting 25 million tea plants to meet the annual demand for tea shoot plants in the tea industry during the year under review and out of the Rs. 75 million received from the funds of the Sri Lanka Tea Board, Rs. 29.75 million had been spent to provide assistance to tea smallholders for a capacity of 17,675,000 plants. However, it was observed that Rs.45 million or 60 per cent of the funds received had been saved in the Authority at the end of the year under review.
- The Authority had received Rs.75 million from the Sri Lanka Tea Board Fund and there was a significant delay in the procurement process in the selection of beneficiaries, obtaining input materials to give material assistance to the selected beneficiaries due to the Covid situation. The money had been used for optimal purposes at now and a sum of Rs.125 million had been obtained for the second installment and that money had been duly paid.
- The money received should be utilized immediately.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>According to the 2018 Annual Budget Proposals, a sum of Rs. 250 million had been approved by the Cabinet for the distribution of agricultural equipment to tea smallholders to encourage them to carry out proper agricultural practices on small tea estates and 13,650 units of agricultural equipment such as Pitch Forks, Hoes, Post Hole Diggers, Water Motors, Liquid Sprayers etc. amounting to Rs.94,408,739 had been stored in Head Office and Regional Offices without being used due to over-purchased of machinery and lack of specific delivery system.</p>	<p>Liquid Sprayers and Water Pumps had purchased from the Ministry of Plantation Industries for distribution to tea smallholders were purchased and supplied to the Head Office warehouse during the last days of December 2019.</p> <p>The distribution of stocks of other equipment sets had been prohibited by the Elections Commissioner due to the 2019 elections. Also, due to the pandemic situation in the year 2020, it couldn't be gathered the tea smallholders and conducted training programs and it was resulted to maintain stocks of agricultural equipment in</p>	<p>Action should be taken immediately to distribute the equipment according to a specific methodology.</p>

warehouses without being distributed. However, It was informed that future activities were already prepared to distribute these stocks in the year 2021.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>The post of Assistant Manager (Human Resources / Administration) is vacant from 31 May 2019 and two years had passed but it had failed to fill the post. Out of 08 Regional Offices, 04 Regional Manager posts in 04 Regional Offices were vacant at the end of the year under review. Also, the vacancies of 17 Tea Inspectors / Extension Officers had not been filled by 31 December 2020 and although the ratio of Tea Farmer and Tea Inspectors or Extension Officers should be around 1: 1000 for an effective extension service, At the end of the year under review, it was 1: 2807.</p>	<p>The Department of Management Services had approved the recruitment to fill the vacancy in the post of Assistant Manager (Administration) of this Authority with effect from 31.05.2019 and 17.09.2019 was fixed for the interview to make the recruitment for the post in the year 2019 in accordance with the provisions of the recruitment procedure. Although the interview was conducted on 17.09.2019 by an interview board approved by the Board of Directors, this recruitment also had not been done because all recruitments had to be suspended due to the government announcing an election period at that time and failure to provide recommendations or marks list of the interview board. After reporting the aforesaid situation and the need to fill the vacancy expeditiously to the Ministry of Plantation and the Board of Directors, as per the instructions given, the interview conducted on 17.09.2019 will be considered as invalid and re-recruitment will be done in accordance with the provisions of the Recruitment Procedure and action had been taken to calling applications from external and internal officers and conducted an interview again on 07.01.2021. Applications are to be called again with the approval of the Board of Directors as per the instructions received from the State Ministry to cancel that interview also and call for applications again.</p> <p>The interview held on 06.08.2019 to fill the vacancies in the post of Regional Manager of the Authority had been canceled as per the letter of the Ministry MPI / Admin / 09 / Vacancies /</p>	<p>Recruitment for vacancies should be expedited.</p>

TSHDA / V-VII dated 21.11.2019.

Thereafter applications were called again from internal applicants on 17.08.2020 as per the provisions of the Recruitment Procedure and following an inquiry by the State Ministry regarding a problematic situation that has arisen in this regard, the State Ministry had instructed to cancel the action taken on the applications received and to call the applications again and conduct an interview. Applications will be called again and recruitments will be made with the approval given by the Board of Directors relating to that.

Public advertisements had been published and applications had been called for the vacancies in the post of Tea Inspector / Extension Officer and recruitment had been delayed due to the inability to hold the competitive examination for recruitment which should be held as per the provisions of the recruitment procedure.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Issue	Management Comment	Recommendation
Although the final audited accounts together with the Auditor General's Report, in all three languages, should be tabled in Parliament within 150 days after the close of the financial year as per Paragraph 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, only the Annual Report of 2018 had been tabled as at the audited date.	Although the 2019 Annual Report was delayed more than 150 days due to the Covid pandemic, currently, the Annual Report had been submitted to the Cabinet for approval after translation.	The Annual Report should be tabled in Parliament as per the Circular.

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
Although copies of internal audit reports are required to be submitted to the Auditor General in accordance	It was informed that further advice will be obtained from the Ministry and further action	Action should be taken to submit copies of the

with F.R. 134 (3), copies of the Authority's internal audit reports for the year under review had not been submitted.

internal audit reports to the Auditor General in accordance with the F.R.

4.3 Sustainable Development Goals

Audit Issue -----	Management Comment -----	Recommendation -----
<p>According to the United Nations' Sustainable Development Goals "2030 Agenda", the Authority had not identified and included the goals to be achieved within its scope of works and the appropriate indicators to measure their progress and the milestones to be achieved annually.</p>	<p>The Sustainable Development Goals identified in 2021 had been identified by the Tea Small Holdings Development Authority in 2020 as well and those were implemented.</p> <p>The progress of all of the above programmes was measured by relevant indicators (KPI) in the progress reports and raising incomes, improving living standards, measuring and performing social factors cannot be done within the scope of the organization.</p> <p>However, performance indicators will be compiled in 2020 as upcountry, middle and lowland and its progress will be measured and it was established milestones to measure the overall target for the smallholder tea sector by 2021 as 230 million kg.</p>	<p>The Sustainable Development Objectives, Goals and Key Performance Indicators should be identified in accordance with the Sustainable Development Act No. 19 of 2017.</p>