

Sri Lanka Tea Board - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Tea Board “Board” for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and 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 Finance Act, No.38 of 1971. My comments and observations which I consider should be reported 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 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka 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 Accounting Standards and for such internal control as management determines 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 intends 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 Sub-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 Scope of Audit (Auditor's Responsibility 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 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 audit 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 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 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 Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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 Accounting Standards

Non Compliance with the reference to particular Standard -----	Management Comment -----	Recommendation -----
(a) Fully depreciated motor vehicles, Laboratory equipment, office equipment, machines and equipment, water and electric appliances, intangible assets and decorative items, computer accessories, furniture and fittings and library books costing Rs.150,717,224 were still in use by the Board as at the end of the year under review. However, the useful life of those assets had not been revalued and brought to account in accordance with Section 51 of Sri Lanka Accounting Standard 16.	Revaluation of buildings is carried out by the Government Valuation Department and except for the Head Office, lease agreements come into force for lands where buildings are located and action will be taken to vest the ownership as at the end of leasing period. Furthermore, revaluation of motor vehicles will be done by a private institution. Only laboratory equipment have been revalued with the assistance of the Industrial Technology Institute. After receiving reports, all relevant information will be adjusted in the financial statements. Moreover, action will be taken to revalue other assets by a qualified internal committee.	The useful life of fully depreciated assets should be revalued and brought to account.

- (b) Action had not been taken in terms of paragraph 34 of Sri Lanka Accounting Standard 16 to revalue the land of the Head Office indicated at a value of Rs.350,000,000 in the financial statements after 31 December 2008 and the land where the Gampola Regional Office is located at a value of Rs.26,300,000 after 25 July 2016 and disclose them in the financial statements.
- The land of the Head Office has already been completely revalued by the Valuation Department and action will be taken to make adjustments in the financial statements immediately after receiving its report.
- The relevant two lands should be revalued and brought to account.
- (c) In terms of Sri Lanka Accounting Standard 19, Projected Unit Credit Method (PUC) had been adhered to on accounting of pension benefit obligation. Nevertheless, it was observed that expenditure on employees gratuity of Rs.9,459,950 and the value of actual profit of Rs.8,502,945 on pension benefits to be recognized as per the current service cost and interest cost at the end of the financial year based on recommendations of the actuarial assessment carried out in the year 2019, had not been timely recognized in the statement of other comprehensive income. Further, adequate investments had not been made for settlement of these liabilities.
- Pension benefit obligation has been computed as per the Projected Unit Credit System as recommended by Sri Lanka Accounting Standard 19. Accordingly, as per the statement of financial position, the pension benefit obligation has been accurately computed. However, disclosures in financial statements are made since the year 2022 and proper instructions have been given to make specific investments for pension benefit obligations.
- The expenditure on gratuity and actual profit/loss on pension benefits should be timely recognized in terms of Sri Lanka Accounting Standards. Moreover, adequate investments should be made for liabilities.
- (d) In the preparation of the cash flow statement, it should be adjusted to the profit before tax of the year under review in terms of Sri Lanka Accounting Standard 7. Nevertheless, the Board had made adjustments to profit after tax.
- Action will be taken to follow matters pointed out in the preparation of the cash flow statement hereinafter.
- Cash flow statement should be prepared in terms of Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observations -----	Management Comment -----	Recommendation -----
<p>a) The income source of money amounting to Rs.6,391,886 and Rs.7,307,960 deposited directly by customers in the second branch of the Bank of Ceylon Colpetty, and in the Bamabalapitiya Branch of the Bank of Ceylon as at the end of the year under review could not be identified. Accordingly, the income of the year under review had been understated in the financial statements by Rs.13,699,846. According to the bank reconciliation statement of the aforesaid second branch of Colpetty as at 31 December 2021, a sum of Rs.392,673 had been indicated as bank errors occurred in the year 2020. However, the said error had not been rectified even by 30 April 2022, the date of audit.</p>	<p>The customers have been instructed to bank their remittance directly and to send copies of those receipts to the Sri Lanka Tea Board through e-mail due to the Covid pandemic. However, they had not emailed those receipts properly to the Tea Board and as such, an amount of direct deposits in two bank accounts could not be identified. Necessary adjustments will be made in this year for transactions revealed in the year 2022. Moreover, necessary steps will be taken to recognize a sum of Rs.489,319 identified in the year 2020 and direct deposits remained unidentified further. Furthermore, the sum of Rs.392,673 indicated as bank errors has been already settled.</p>	<p>Income source of direct deposits should be recognized and brought to account expeditiously and bank errors be rectified immediately.</p>
<p>b) Mobilization advances of Rs.6,951,410 of the contract of installation of the centralized air-conditioner system in the Head Office, Colombo as at 31 December of the year under review had been deducted in making payments to the contractor. However, the Mobilization Advance Account had not been settled accordingly.</p>	<p>The last payment for the centralized air-conditioner system has been made by 04 May 2022. In making those payments, Mobilization Advance Account has been settled by making computations accurately.</p>	<p>Action should be taken to settle the Account by setting off mobilization advances in making payments to the contractor.</p>

- c) An unidentified balance of Rs.4,200,041 had remained in the Debtors Control Account as at 31 December 2021 and action had not been taken to settle it, thus overstating the debtors balance and the income in the financial statements by the same amount.
- d) It was observed that a sum of Rs.1,869,582 of the balance of stock in transit amounting to Rs.2,434,872 receivable to the Board as at the end of the year under review, is a balance brought forward over a period of 12 months and it was further observed that stocks valued at Rs.429,229 of that were chemicals ordered for the usage of laboratories.
- e) Twenty three lawsuits instituted by third parties against the Board and by the Board against those parties in respect of close down of Tea factories, cancellation of registration, contract activities and other service issues were on trial during the year under review and according to a Arbitration Decision given on 27 July 2021, the Board had to pay a compensation of Rs.485,232 to a contractor. No provision had been made therefor in the financial statements.
- Steps have been taken to settle the Debtors Control Account. Accordingly, action will be taken further in the year 2022 to identify the unidentified balance of Rs.455,133.
- Amongst balances relating to stocks receivable for over a period of 12 months mentioned in the query, the relevant suppliers have failed to supply these goods ordered in the year 2020, to the Sri Lanka Tea Board due to restrictions in travelling and importation of goods imposed owing to Covid 19 pandemic. As such, action will be taken to cancel relevant Goods Order Notes.
- The sum payable to the Defendant by the Sri Lanka Tea Board amounted to Rs.485,232 and this amount could be determined by referring to the Board of Arbitration.
- Unidentified balances should be identified expeditiously and brought to account accordingly.
- Balances of stock in transit remained for a long period should be timely followed up and adjusted in accounts.
- Provision should be made in the financial statements for the said compensation payable. Management activities should be carried out so as to minimize court proceedings.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observations -----	Management Comment -----	Recommendation -----
a) A sum of Rs. 1,289,086 being the expenses incurred on foreign tours of officers of the Kalubowitiyana Tea Factory Limited including a former Minister and a former Additional Secretary of the Ministry, and a sum of Rs.317,232 being the expenses incurred on foreign tours of officers of the Tea Small Holdings Development Authority, had been indicated in the financial statements as receivables for a period from 03 years to 05 years and from 02 years to 03 years respectively and action had not been taken to recover them even by 30 April 2022, the date of audit.	The sum of Rs.957,832 incurred as expenses on foreign tours of the former Minister and the former Additional Secretary had been brought to account as a promotional expenditure of tea . The sum of Rs.252,054 incurred for air tickets of the former Chairman, recoverable from the Kalubowitiyana Tea Factory Limited has been settled. A sum of Rs.79,200 was receivable from the Kalubowitiyana Tea Factory Limited. Moreover, letters have been sent for the recovery of the sum of Rs.317,252 receivable from the Tea Small Holdings Development Authority and it has been informed that the relevant money will be settled by referring it to their Board of Directors. I inform that action will be taken to settle the said amount in the year 2022.	These amounts incurred for foreign tours of the Ministry and external parties should be recovered expeditiously.
b) The sum of Rs.918,679 that had been saved in 15 countries out of Rs.51,604,457 given to foreign embassies in the year 2017 for providing tea as refreshments globally, had not been recalled even by the end of the year under review.	The dues recoverable from 07 foreign embassies as at 31 December 2021 has already been remitted to the Ministry of Foreign Affairs and action will be taken to recall the said money from the Ministry of Foreign Affairs.	These advances should be settled with immediate effect.
c) The sum of Rs.868,578 receivable China, United Kingdom, Germany and Moscow, had been remitted to the Ministry of Foreign Affairs in Sri	Requests have been made in writing several times during the year under review to the Ministry of Foreign Affairs in Sri Lanka and discussions held thereon for the recovery of total	Action should be taken by the responsible parties for the recovery of money from the Ministry of Foreign Affairs as soon as

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| Lanka through relevant embassies. However, action had not been taken to recover the said dues from that Ministry even by the date of audit. | amount recoverable to the Sri Lanka Tea Board as at 31 December 2021. However, a positive response has not been made therefor by the Ministry of Foreign Affairs so far. | possible. |
| d) The balance receivable for selling of Sri Lanka Cricket T-Shirts with the brand of “Ceylon Tea” valued at Rs.679,123 included in the balance receivable has been brought forward over a period of 05 years and action had not been taken to recover same even by 30 April 2022, the date of audit. | The value of Sri Lanka Official T-Shirts amounting to Rs.679,123 was brought forward since the year 2013. Recovery of money receivable for Official T-Shirts provided to foreign countries, is a practically difficult task. Matters will be made available to the Board of Directors to write off this amount as a loss. | The balance receivable should be recovered from responsible parties. |
| e) Action had not been taken to recover the security deposits of Rs.249,130 and Rs.203,847 receivable from the embassies of United Arab Emirates and Moscow respectively since the years 2010 and 2017. | As the recovery of advance paid for the quarters of the former officer served in the Tea Promotional Unit of the United Arab Emirates, is practically difficult, action will be taken to obtain the approval of the Board of Directors at the next Board meeting to write off this amount as a loss. | The balance receivable should be recovered from responsible parties. |
| f) A loan amount of Rs.8,760,400 had been paid from the Tea Promotion Fund of the Board to the Elkaduwa Plantation Company for the payment of Diwali Festival advances to labourers in Regional Plantation Companies in the year 2019. Even though 02 years had elapsed after paying the said advance, the Board had not taken action to | Even though it was informed several times to settle the said advance granted to Elkaduwa Plantation Company for the Diwali Festival, no positive response was made therefor. Further, they have been informed to settle these money as soon as possible. | Prompt action should be taken to recover the said money either from the Plantation Company or from responsible parties. |

recover any money of the said balance as at 31 December 2021.

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| g) | A sum of Rs.889,870 (RMB 33,389.74) repaid to the China Embassy by the Government of China for the vehicle purchased in the year 2018 for the Tea Promotion Unit in China, had not been recalled to the Board up to end of the year 2021. | This amount has been remitted to the Ministry of Foreign Affairs by the China Embassy. Even though requests thereon were made several times to the Ministry of Foreign Affairs, they had not taken action to remit this amount. Action will be taken to recall the relevant amount after negotiating with the Chief Accountant of the Ministry of Foreign Affairs. | Action should be taken by the responsible parties for the recalling of money from the Ministry of Foreign Affairs as soon as possible |
| h) | In the analysis of remittance carried out by the Promotion and Marketing Tax Fund, it was revealed that action had not been taken even by 31 December 2021 to recover the loan amount of Rs.1,209,000,000 granted by the Fund to the Ministry of Finance, Central Bank of Sri Lanka and Janatha Estates Development Board. | The Secretary to the Ministry has informed to send a letter to recover the loan amount granted to the Ministry of Finance and to summon a discussion between two parties to recover funds granted to the Janatha Estates Development Board. | Prompt action should be taken to recover the loan amount from responsible parties. |

1.6.2 Payables

Audit Observations	Management Comment	Recommendation
a) Due to failure in properly settling the deposits made in the Board by tea factory owners in order to be paid to the green tea suppliers, the value of deposits that had not been settled for 1-19 years between the year 2000 and 2019, totalled	Inquiries are being held on deposits payable to the Green Tea suppliers. According to its progress, action will be taken to brief the Board of Directors and credit to the income on repayment basis in case of requests made for deposits from the year 2000 to the year 2019.	The parties whom the payments should be made to, should be identified correctly, and settlement of funds should be done expeditiously.

Rs.6,908,583 which represented 77 per cent of the total value of deposits amounting to Rs.8,935,369. After the inquiries held thereon, it was observed that action had not been taken either to complete making payments or to return to depositors if beneficiaries are not found.

- b) Action had not been taken even up to the date of audit, to remit the saving of Rs.912,229 resulted from subsidy received by the Board from the Treasury in the year 2015 to be paid to the suppliers of tea leaves in view of maintaining a minimum price of Rs.80 per kilogram of fresh tea leaves to the Treasury in terms of agreements. As no qualifications are fulfilled to pay the saving of Rs.912,229 resulted from subsidy received from the Treasury in view of maintaining a minimum price of Rs.80 per kilogram of fresh tea leaves, it is informed that the said amount has been remitted to the Ministry of Finance by a cheque through the Ministry of Plantations. The remaining subsidy should be remitted to the Treasury.

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

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----	Management Comment -----	Recommendation -----
(a) Sections 13 and 14 of the Sri Lanka Tea Board Law, No. 14 of 1975	According to the provisions of the Law, the Cess levy charged by Sri Lanka Customs should be credited to a fund maintained by the Tea Board. However, it had been directly credited to the General Treasury.	The Cess is directly credited to the General Treasury in accordance with instructions given to Sri Lanka Customs by the General Treasury.	Action should be taken in terms of provisions of the Law.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	A storekeeper who is charged with the tasks relating to the receipt, custody or issue of stores	The storekeeper had recorded all notes on receipt and issue of	Inventory Books should be maintained in terms of Financial Regulations.

F.R.715(2)(e)	shall maintain registers and accounts for all receipts, issues, and disposals of stores in the required manner. However, a new inventory had been opened by mentioning the physical stock balance remained as at that date from 09 April 2021 and accordingly, no transactions relevant to the preceding months of the year under review had been included therein.	goods after 09 April 2021.	
(c) Section 11 of the Finance Act, No. 38 of 1971.	The Board had invested a sum of Rs.8,544,639,497 in fixed deposits and short term deposits as at 31 December 2021. However, concurrence of the relevant Minister and the Minister of Finance had not been obtained in that connection.	The Sri Lanka Tea Board makes investments in fixed deposits properly through the investment committee only in state banks at more beneficial interest rates with transparency on instructions of the Board of Directors after briefing them. The concurrence of the Minister of Finance is not obtained therefor according to provisions of the Finance Act.	Approval of the relevant Minister and the Minister of Finance should be obtained before making the investment.
(d) F.R. 756 (9)	According to the time frame of conducting and completing the Annual Board of Survey, the Board should furnish the report on Board of Survey relating to the year 2021 to the Auditor General before	About 80 per cent of the activities of Board of Survey relating to the year 2021, has been conducted. Survey activities of 03 regional	The report on the Annual Board of Survey should be furnished to the Auditor General in terms of Financial Regulations.

15 June of the ensuing financial year. However, action had not been taken accordingly even by 31 October 2022, the date of Audit. offices are pending due to the fuel crisis that prevailed.

1.8 Non-compliance with Tax Regulations

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Even though there was no evidence that a tax exemption was obtained relating to income such as business income and recovery of other fees, it was observed in Audit that the Board had not taken action to pay income tax on such other income except for investment income. Moreover, the tax expenditure on investment income of the Sri Lanka Tea Board for the year under review was Rs.5,344,262. However, only a sum of Rs.4,961,057 had been identified in the financial statements as tax expenditure relating to the Sri Lanka Tea Board. Accordingly, tax expenditure and the payable expenditure had been adjusted in less of Rs.383,205.	The Sri Lanka Tea Board has paid income tax up to the year 2021 only on the interest income in terms of the Inland Revenue Act. Even the officers of the Inland Revenue Department had failed to give specific answers on the tax liability of Government owned businesses on previous occasions and there was no reporting of a tax default as well. However, it is confirmed that the tax amount of Rs.383,205 adjusted in less, has been paid on 05 May 2022 according to the Inland Revenue (Amendment) Act.	Necessary steps should be taken to pay tax in accordance with the Inland Revenue Act.

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.8,194,033 as against the deficit of Rs.21,447,654 of the preceding year, thus observing an improvement of Rs.29,641,687 in the financial result. The increase in Government recurrent grants and capital grants by 30 per cent, income from laboratories by 103 per cent and the amount transferred from the interest income of the Tea Promotion and Marketing Tax Fund by 70 per cent and the decrease in financial expenditure by 97 per cent had mainly attributed to this improvement.

2.2 Ratio Analysis

The current ratio of the year under review and the preceding year was as high as 1:14. Short term investments of the Publicity and Promotion Fund that is the representation of fixed deposits on the total current assets by 84 per cent had attributed to this.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations -----	Management Comment -----	Recommendation -----
(a) An adjoining building and an empty land have been obtained on monthly rental basis of Rs.100,000 for a period of 02 years from 01 February 2021 for maintaining operations of 02 sections belonging to the Tea Board and for parking vehicles respectively by entering into agreements. However, the empty land obtained for a value of Rs.50,000 of the lease amount had not been utilized for the proposed objective. Accordingly, it was further observed that a sum of Rs.1,200,000 had to be incurred by the Tea Board as an uneconomic expenditure for a period of 02 years by entering into agreements without carrying out a proper feasibility study.	It was indicated by the relevant technical report that it is a risk to operate the Tea Tasting Unit. As such, it was in September 2020 that a plan was made to rent the building adjoining the Tea Board after obtaining proper assessment reports and action had been taken to obtain the empty land too with the said building, considering the inconvenience caused relating to parking of vehicles of parties who visit the Board for obtaining services. However, the said land could not be properly utilized due to the Covid – 19 pandemic. Even though the owner of the building was enquired on the possibility of releasing the said block to the owner, he rejected to take over only the said block as agreements had been entered into for a period of 02 years.	In entering into procurement agreements, action should be taken, considering the main objective and the economic benefit in relation to the expenditure, in mind. The land obtained should be utilized for effective purposes.
(b) The contract of assigning the operations of the tea stall of the Nuwara Eliya Regional Office of the Sri Lanka Tea Board had been awarded to a private party for a lease amount of Rs.8,162,296 for a period of 6 years without checking the ability of payment by entering	A sum of Rs.1,312,320 has been recovered of the amount recoverable from the year 2019 to December 2021. The sum of Rs.986,253 is the surcharge recovered if the lease amount is not duly settled. Action will be taken relating to these surcharges.	Outstanding lease amounts should be properly recovered.

into an agreement. As such, the lease amount of Rs.2,298,572 recoverable to the Board from the tea stall of Nuwara Eliya during the period from the year 2019 to 31 December 2021, could not be recovered.

(c)The Janatha Estates Development Board and the Tea Board had entered into an agreement following the Directives of the COPE meeting held on 19 June 2012 that the Ceylon Tea Museum in Hantana owned by the JEDB be acquired by the Tea Board in lieu of a loan amounting to Rs.25,000,000 granted on 19 September 2003 by the Tea Board. However, this process had not been carried out even after a period of 09 years. No agreement whatsoever had been entered into between the two parties relating to the acquisition of the ownership of the Tea Museum and the loan balance. Furthermore, according to the Management Board Decision No.20220/492/65, the Tea Board had again granted a loan of Rs.10,000,000 to the Janatha Estates Development Board on 27 February 2020 in order to pay salaries of the labourers employed at the estates of the Janatha Estates Development Board and of that only a sum of Rs.1,000,000 had been recovered.

(d)Action had not been taken to legally vest the ownership of 3 lands located in the areas of Nuwara Eliya, Bandarawela and Ratnapura on which

Even though various discussions were held with the Janatha Estates Development Board, in terms of letter dated 03.05.2022 of the Executive Officer, Janawasama, it has been informed to settle a sum of Rs.31.5 million having computed the outstanding lease rentals from the year 2001 up to the year 2020. In response to the said letter, they have been briefed on the interest receivable after computing had the said loan granted by us, been invested in a state bank. Action will be taken on a definite agreement having held discussions in this regard.

The request for vesting the land owned by the Nuwara Eliya Regional Office, has been made to the Divisional Secretary, Nuwara Eliya on

A definite agreement should be expeditiously entered into relating to vesting the ownership of the property and payment of the loan. Accordingly, settlement should be made immediately.

Action should be taken to legally vest the ownership of lands on which buildings are constructed, in the

buildings were constructed by spending a sum of Rs.211,115,401 by the end of the year 2019 by the Board and to bring them to account.

16.02.2021. Accordingly, action is being taken to vest the lands legally in the Tea Board. As the lands belonging to the Bandarawela and Ratnapura Regional Offices have been obtained from the Urban Development Authority, there is no possibility of the said lands being vested in the Tea Board.

Board.

(e) Approval of the ministers of the Western Province had been granted for leasing out the land maintained by the Kalutara Regional Office on long term lease basis to the Tea Board for a period of 30 years from the year 2014. However, a lease agreement had not been signed up to 30 April 2022 with the Divisional Secretary, Parinda Nuwara who is the relevant authority.

The land on which the Badureliya Regional Office was operated, has been obtained on long term lease basis and it has been informed to prepare and forward a lease agreement dated 24.08.2021. The said matters have not been finalized yet due to certain delays of the Divisional Secretariat. However, it is informed that requests are continuously made for entering into lease agreements.

A lease agreement should be immediately entered into.

(f) It has been mentioned in the letter addressed to the Chairman dated 06 December 2016 by the Secretary to the Ministry of Plantation Industries that appropriate action should be taken against the officers who had acted heedlessly relating to the loss of Rs.62,603,006 occurred without implementing the Tea Sales Centre in Colombo named, "Tea Moments" which was commenced without carrying out a feasible study. Nevertheless, neglecting the aforesaid letter, the Board of Directors had decided that it

Establishment of the Tea Moments Committee Sales Centre is a decision made by the Board of Directors and no officers are involved in it. As the officers are not held responsible on the loss occurred, the Board of Directors have decided that taking action against them is inappropriate.

Action should be taken to recover this loss from the officers or the members of the Board of Directors.

was inappropriate to take disciplinary action thereon. Action had not been taken even up to 30 April 2022 to recover the said loss from the relevant officers or the members of the Board of Directors.

3.2 Operational Inefficiencies

Audit Observations	Management Comment	Recommendation
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<p>(a) Despite having no income from sale of tickets of the Ceylon Tea Museum located in Hantane, Kandy in the year under review, an expenditure of Rs.3,000,000 had been reimbursed and it is observed that an increase of 41 per cent is indicated in relation to the expenditure of the preceding year. It was further observed that the role performed therefrom and the contribution towards promotion and publicity should be reviewed again.</p>	<p>As the Tea Museum is the only Government institution with a historical value portraying the importance of the tea industry of Sri Lanka, has been maintained on a self-generating income from sale of tickets from the year 2003 up to the year 2019 while a fixed deposit of Rs.11 million was also maintained in its name. Nevertheless, the arrival of tourists ceased with the collapse of tourism industry as a result of the Easter Attack which occurred in April 2019. The Tea Museum has been planned to be maintained under minimum expenditure until the tourism industry recovers. A certain amount of money has been allocated from the Promotion Fund of the Tea Board, which is the main institution therefor.</p>	<p>Action should be taken to earn an adequate income according to a strategic plan. The expenses of the Ceylon Tea Museum should be brought under control.</p>
<p>(b) The approval had been granted by the decision of the Cabinet dated 01 December 2011 to implement the "Strategic Plan for the Promotion of Ceylon Tea" during the five-year period from the year 2012 to 2016. It had been planned to implement a programme by incurring an amount of Rs. 8 billion from</p>	<p>Although it had been entered in to a contract for creative products on 06 November 2015, the contract for consultation services for media buying had been signed on 31 March 2018. Accordingly, the television</p>	<p>Action should be taken promptly to implement the strategic plan for the promotion of tea.</p>

the tax collected from the exporters, and a sum of Rs.297,890,836 had been spent for those activities by 31 December 2021. The advertisement designed for that programme had been aired only through NTV media in Russia and those advertisements had not been aired in the other 9 anticipated countries. Although a media conference had been held in Russia and Ukraine by paying an amount of Rs. 29,832,302 to a private company in Russia in September 2019 pertaining to this programme, propaganda activities on public relations had not been carried out in the promotional programme other than holding tea tasting programmes.

- (c) Although there had been a Preferential Tariff Rate Quota for tea under the Indo-Sri Lanka Free Trade Agreement (ISFTA) and the Pakistan-Sri Lanka Free Trade Agreement (PSFTA), it had not been possible to record a significant utilization of it in the year 2021 as well. Although quotas of 15 and 10 million kg per year had been allocated under Indo-Sri Lanka and Pakistan-Sri Lanka trade agreements, 74,006 kg and 34,710 kg had been utilized respectively, i.e. 0.49 and 0.35 percent only.

advertisement produced at a cost of Rs.99,630,039 to be used for media broadcast was delayed.

The agreement was extended for a period of 4 years and 06 months (under 03 terms) due to the aforementioned delays. Subsequent to 16 November 2019, the new Governing Authority decided to review this programme again and matters had been submitted to the Ministry for submitting a new cabinet memorandum based on the decisions taken at various levels.

A 50% reduction in the duties related to the export of tea has been given up to a quota limit of 15 million kg of tea exported from Sri Lanka annually through the Indo-Sri Lanka Free Trade Agreement.

The quota offered through the agreement has not been used up to its maximum level due to non-tariff barriers and a quantity less than one million kilograms of tea is exported almost every year.

Although Pakistan has given an annual quota of 10,000 metric tons to Sri Lanka on a duty-free basis under the Pakistan-Sri Lanka Free Trade Agreement, Sri Lankan tea exporters have not yet fulfilled the expectations for obtaining tariff benefits due to the high price of Sri Lankan tea and the strong interest for

Measures should be taken to remove obstacles in achieving maximum benefits from free trade agreements.

Kenyan tea in Pakistan. The Sri Lanka Tea Board has now made a request through the Department of Commerce to get duty concessions specific benefits for Sri Lankan tea.

(d) Although World Production Share of Sri Lankan tea in 2011 had been 18 percent according to the Supplementary to International Tea Committee News Bulletin due to not developing the total tea production and exports of Sri Lanka gradually, the World Production Share for Sri Lankan tea had dropped to 15 percent.

Accordingly, the share of tea production in Sri Lanka remained at 7 percent in the year 2011 and it had decreased to 4.4 percent in the year under review as compared to the decrease in the share of Sri Lankan tea in the global market from 18 percent to 14.6 percent. The impact of the global pandemic situation had also been a reason for this situation.

Investment in qualitative tea should be expanded as per the international quality standards in order to increase the tea production and the share of Sri Lankan tea in the global market.

(e) The total number of domestic tea packers registered with the Board had been 1,016 by the end of the year 2021 and the number of newly registered packers during the year had been 116. Only 176, out of the total registered domestic tea packers, had renewed their registration. It had been 17 percent of the total number of packers. Accordingly, it was observed that the supervision of the Board in relation to the renewal of the registration by domestic tea packers had not been in a satisfactory level.

The general public is informed in national level at the regional office level and in conferences and meetings held by the Sri Lanka Tea Board that domestic tea packers must obtain licences from the Tea Board and advertisements are also published in newspapers in that regard. All the registrations with the Tea Board and not renewed the registration subsequently with the Board will be cancelled and action will be taken to update the major files.

The Board should conduct adequate supervision on the renewal of the registration of packers and take necessary steps to maintain the standard of packing.

(f) The Board had designed packaging boxes using the moonstone theme to pack the seven flavours of tea produced in the seven regions of Sri Lanka, and it was observed that 620 empty packaging boxes related to the Udupussellawa region had been removed as they had not been in their standard. While 4,340

The decision to change the packaging design of the tea stocks produced in 07 regions was taken by considering the remaining stock conditions of the packer. Accordingly, they have been informed to use

Stocks in warehouses should be properly controlled and steps should be taken to reduce the risk of wastage and fraud.

printed packs related to the other regions had been stored in the respective company, the remaining 4,340 units of packaging stock remained idle in the warehouse as arrangements had been made to change the moonstone theme in a different colour under a new theme.

the stock related to the new design and to remove the remaining stock.

(g) Although the stock value of approximately 65,035 units of empty packaging stocks, rejected in previous periods due to non-compliance with the prescribed standard, had been recovered by the Board from the relevant private company by the end of the year under review, action had not been taken to remove the aforementioned stock. It was observed during the audit that there is a possibility of misusing these rejected empty packaging stocks with the brand names of Sri Lanka Tea Board and 'Ceylon Tea' as the Board had not taken action with the leadership of the Board to destroy or remove the stock.

Arrangements will be made to remove this packing stock as soon as possible.

Action should be taken promptly to prevent the misuse of packages.

(h) Subsidy payment of Rs.1,000,000 was being made per one approved beneficiary under 4 stages through the Model Tea Gardens Project started by the Tea Board in the year 2019 by mechanizing the tea plantations. Twenty six (26) Model Tea Gardens Projects had been approved and registered in the year 2020 under this project. It was observed that activities related to the installation of Irrigation System for the second phase of 18 projects, for which a subsidy amount of Rs.5,400,000 had been issued in the first phase, had not been implemented even by 31 December 2021 and there had been no progress in 06 projects.

Irrigation systems had not been installed for 18 projects, for which subsidies have been released for the first phase. Installation of irrigation systems is one of the 04 phases of this project. Growers have been informed to complete that phase and subsidy payments have been made after completion of the phase.

Prompt measures should be introduced to initiate and successfully complete all the projects under the proper supervision of the Board.

3.3 Procurement Management

Audit Observations -----	Management Comment -----	Recommendation -----
<p>(a) A private contractor in Dehiwala area had been awarded the procurement for an amount of Rs.69,373,510 on 23 November 2020 by following the National Competitive Bidding for the purchase of a new Liquid Chromatography Tandem Mass Spectrometer (LCMS/MS) device to check the residue level of Methyl Chloro Phenoxyacetic Acid (MCPA) in Sri Lankan tea. The second advance of 50 percent had to be paid on the recommendation of the Technical Evaluation Committee after the installation of the Liquid Chromatography Tandem Mass Spectrometer (LCMS/MS) machine and after testing the tea samples commercially as per ISO 17025 accreditation standards in accordance with 4.3.2 of the contract agreement. Nevertheless, the issuance of test reports based on commercial samples had been done with effect from 01 December 2021 and contrary to the terms of the bid agreement, 50 percent of the bid value i.e. Rs. 34,917,055 had been paid on 10 August 2021. Moreover, the audit had been informed that only 27 MCPA tests had been conducted using this machine even by 25 May 2022 although the machine had a high capacity. It was further observed that this machine should be maintained by incurring a high cost, always under air-conditioning, even though the machine had been utilized at a low level without adequately and</p>	<p>The commercial sample sent to the laboratory for MCPA testing was analysed on 21.07.2021 and the accuracy of the results was confirmed by the ITI Institute accredited for MCPA and the Director (Analytical Services) has recommended the payment on 29.07.2021 along with the recommendation of the Technical Evaluation Committee and based on that result.</p> <p>The Tea Board had completed the relevant procurement and the specific chemicals had been received for the LCMS / MS machine from the suppliers in the second half of November 2021. Subsequently, the Tea Industry was notified through a laboratory circular and the issuance of the relevant tests was started with effect from 01 December 2021.</p> <p>Certain other pesticides can be tested, apart from MCPA, using the above equipment and such tests have been introduced from time to time as per the request made by the Tea Industry.</p> <p>Subsequent to filling the employee vacancies in the permanent positions of the laboratory, the relevant equipment can be fully utilized after resolving the issue on foreign reserves that have affected the suppliers for the import of those materials since all the relevant special chemicals must be imported.</p>	<p>An inquiry should be carried out as per the contract agreement regarding the non-payment of the amount after the installation of the machine subsequent to testing the tea samples in accordance with ISO 17025 accreditation standards on the recommendation of the Technical Evaluation Committee and necessary action should be taken to fully utilize the machine.</p>

promptly fulfilling the laboratory test requirements of the industry.

- (b) Even though a charge sheet had been issued against the former Assistant Director, who had been attached to the laboratory and served at that period in relation to the irregularities in the purchase of the Liquid Chromatography Mass Spectrometer, which had been purchased at a cost of Rs.32,132,088 in the year 2009 and had not been utilized due to non-compliance with the expected specifications, action had not been taken to recover the loss incurred to the Sri Lanka Tea Board from the parties responsible after completing the formal disciplinary inquiry.

After conducting a formal disciplinary inquiry, the report of the inquiry has been received by the institution and the said report will be submitted at the meeting of the Board of Directors that will be held on 08.07.2022.

Action should be taken to recover the loss incurred to the Sri Lanka Tea Board from the parties responsible.

3.4 Resources Released to other Organizations

Audit Observation -----	Management Comment -----	Recommendation -----
<p>(a) Although action had been taken to provide two cabs costed at Rs. 1,800,000 each belonging to Sri Lanka Tea Board to the National Plantation Management Institute on 28 November 2017 for its use, action had not been taken to collect money and to transfer the legal ownership of the above vehicles even by 30 April 2022, the date of the audit. Private taxis had been used by incurring a sum of Rs. 2,204,213 to meet the transport requirements of the Board also during the year under review.</p>	<p>Two related vehicles had been handed over to the National Plantation Management Institute with the approval of the Secretary of the Ministry of Plantations, subject to the transfer of the ownership of the vehicles after the payment of the assessed value by the Institute. It has been informed to the National Plantation Management Institute by the letter dated 06/01/2022 to pay money in installments for the above 02 vehicles.</p>	<p>Action should be taken to transfer the ownership of the vehicles only after charging money.</p>

3.5 Human Resource Management

Audit Issue -----	Management Comment -----	Recommendation -----
(a) The approved staff of the Board as at 31 December 2021 had been 328 and the actual staff had been 262. Accordingly, there had been 66 vacant posts including 03 posts (between 02 years to 06 months) of Deputy Director (Marketing), Director (Promotion) and Director (Administration) belonging to the top management level. Action had not been taken to fill the vacancies or to revise the approved cadre.	The vacancy has not been filled as the Government has temporarily suspended the filling of vacancies.	Arrangements should be made to fill the vacancies or to revise the approved cadre.

4 Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation -----	Management Comment -----	Recommendation -----
(a) It was observed as per the action plan of Sri Lanka Tea Board and its progress during the year ended 31 December 2021 that the financial progress of three estimated activities amounting to Rs.525 million of the Board had been in the range of 09 percent to 37 percent, while the physical progress had been in a lower level as 0 percent to 22 percent. It was also observed that the physical progress of 14 activities, such as awareness programme on proper harvesting of tender tea leaves, mechanical harvesting of tender tea leaves and installation of solar power systems in tea factories organized in the year under review, had been less than 50 percent of its targeted physical progress. Furthermore, the physical progress related to 2 projects estimated at Rs. 325 million during the year under	Action will be taken from next year to separately identify explicitly responsible persons and to prepare the action plan. Obtaining the approval for the Sprinkler Irrigation Project in the 3rd quarter and as a result, time was not sufficient to complete the installation of the irrigation systems, and the amounts allocated for the planned global promotional activities through social media were not spent materially as the activities had been suspended were the reasons for the decrease in the financial progress of the three activities estimated at Rs.525 million. The targeted financial and physical progress could not be achieved due to the cancellation and postponement of the trade fairs. The reasons for not achieving the expected goals of the planned activities in the year under review were mainly due to the obstacles in gathering people due to the Covid-19 pandemic	Action should be taken to achieve an adequate progress in relation to the Action Plan, to properly assign responsibilities and to carry out proper monitoring on quarterly basis.

review had not been submitted to audit and information regarding the financial progress of the activities amounting to Rs. 210 million, out of that, had not been submitted to audit as well.

situation. Although there had been a delay in the initial activities of producing solar power in tea factories, more than 50 percent of the related down payments have already been made. The progress has retarded as a lower number of applicants has applied for installing solar power systems.