

## **Tea Small Holdings Development Authority - 2021**

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### **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 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity/net assets and cash flow statement for the year then ended, and notes to the financial statements including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971. My comments and observations which I consider should be 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 Authority as at 31 December 2021, 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 based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 intends 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, it 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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. 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on Preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with Reference to Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although the assets expected to be realized within 12 months after the reporting date should be classified under current assets in terms of Paragraph 76 (c) of Sri Lanka Public Sector Accounting Standard 01, the fixed deposits maturing within a period of one year amounted to Rs. 59,629,115 had been shown under non-current assets in the financial statements.	The conversion of the seven-day deposits held by the Authority into quarterly fixed deposits was done in the year 2021 on the recommendations of the Audit and Management Committee. The fixed deposits of previous years had been classified through the investment head under non-current assets and presented in the financial statements. But it has been noted to be classified and presented under current assets in the financial statements of the year 2022 as per the recommendations in the Draft Audit Report.	Current assets and non-current assets should be accurately classified and presented in the financial statements in terms of the Standard.
(b) Although the provisions should not be made for contingent liabilities which cannot be precisely estimated in terms of Paragraph 100 of Sri Lanka Public Sector Accounting Standards 08, in contrary to that, a provision of Rs. 4,605,250 had been made for a contingent liability	It has been informed that the service of an external assessor should be obtained to assess contingent liabilities in relation to pending proceedings against the Authority as per Paragraph 103 of Sri Lanka Public Sector Accounting Standard 08.	The contingent liabilities that cannot be precisely estimated should be disclosed by notes in terms

pertaining to proceedings pending in the High Court and District Court and Labor Tribunals at the end of the year under review. Likewise, if external valuation is used to measure the contingent liability, disclosure is required in accordance with Paragraph 103 of the Standard, that information had also not been disclosed.

Similarly, it is informed that the actions will be taken to make adjustments for activities that have been precisely identified for contingent liabilities in the future financial statements and to disclose the contingent liabilities which were not identified precisely, in the notes. of the Standard.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the District Labour Office had issued three orders in the months of February and March of the years 2020, 2021 and 2022 to pay an arrears of salaries amounting to Rs. 2,167,236 after hearing the complaints filed in labour offices against the forfeiture of appointments made with effect from 01 September 2019 for employees hired on temporary, casual, daily and substitute basis, provisions had not been made for the same and disclosures had not been made in the financial statements in this regard.</p>	<p>The Supreme Court has given a judgement that the employees hired on temporary, casual, daily and substitute basis are illegally recruited employees. Accordingly, the services of the respective employees have been terminated. Nevertheless, Due to the fact that the institution is impossible to pay the arrears of salaries for the illegal appointments on the notice to pay 2,167,236 arrears of salaries to the concerned persons through the hearing of complaints made by the respective persons to the labour offices, an internal investigation is being carried out on the instructions of the Ministry about who are the officers responsible for this. Therefore, I would like to inform that the provisions have not been made through the financial statements.</p>	<p>Provision for salary arrears should be made in the financial statements.</p>

- (b) As a result of capital expenditure incurred for creating a mobile service vehicle for extension works and for establishing a Digital Extension Communication and Pilot Unit amounting to Rs. 9,900,000 had been considered as recurrent expenditure and inclusion in the statement of financial performance as expenses, the surplus and non-current assets of the year under review were understated in the financial statements by that amount.
- The use of digital technology leaning towards a new strategy to address the farmers was recognized through the recommendations of the Board of Directors as a matter of principle and although the establishment matters for that were adjusted with financial progress in the extension expenses under the capital development allocated on the approval, it has been noted to be corrected and capitalized under prior year adjustments in the financial statements 2022.
- Capital expenditure should be capitalized without entering in the statement of financial performance.
- (c) Even though the lands valued at Rs.35, 091,728 pertaining to 66 acres and 31 roods owned to the institutions such as the Government, the Land Reform Commission and the Mahaweli Authority, which have not transferred the ownership to the Authority had also been included in the value of land shown in the statement of financial position in the year under review as Rs. 73,907,078, these lands had not been disclosed in the financial statements. Further, the buildings valued at Rs.71, 856,901 had been constructed in four regional offices where the legal ownership of the land has not been transferred to the Authority.
- Mahaweli Authority, Land Reforms Commission and other government agencies have given land properties to the Authority many years ago based on letters of agreement and other Memorandum of Understanding agreements for construction of buildings. The respective buildings have been provided many years ago that is, since the inception date of the Authority and at present, the Authority is incurring and carrying out the surveys and making arrangements to acquire the relevant property by now and the ownership of a number of properties have already been obtained by the Authority.
- Arrangements should be made to transfer the ownership of the land to the Authority immediately.
- (d) The income tax liability amounted to Rs. 1,221,593 to be paid on interest income of Rs. 5,089,972 in the year under review had not been shown in the financial statements.
- Although the income earner is liable to pay tax on the income earned to the Inland Revenue Department, no tax has been paid yet as a public institution (depend on
- The income tax payable on interest income should be calculated and accounted for.

Treasury inputs) we do not have any revenue generating methods also through our institution. Nevertheless, tax on interest income will be implemented as per your recommendations in future that is in the year 2022.

- (e) A sum of Rs. 3,980,066 which had remained from the provisions under sundry expenses in relation to the distribution of glyphosate for tea cultivation in the years 2019 and 2020 and a sum of Rs. 3,937,038 as unsettled value of relevant cheques from the aid distributed to farmers for soil conservation in tea cultivation had been brought forward in the financial statements as a liability since 2014 and the accounts had not been settled at the end of the relevant task.

It is agreed that the remaining amount under the expenses related to the distribution of glyphosate and the amounts that were not presented for payment after distributing to the farmers as soil conservation subsidies have been shown under liabilities in the financial statements. It is informed you that a project will be formulate in the future for the betterment of the small tea plantation owners and the money will be spent on the approval of the Treasury with the recommendations of the Ministry.

Remittance of remaining provision to the Treasury at the end of the respective task and incurrence of relevant expenditure under the approval of the Treasury should be carried out.

### 1.5.3 Unreconciled Control Accounts or Records

Observations related to all unreconciled control accounts or records can be shown under this.

Item	Value as per financial statements	Value as per Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
(a) Sundry Stock	11,353,013	4,014,660	7,338,353	A discrepancy was identified between the physical balance and the sundry stock account balance. Accordingly,	Stock balance should be properly adjusted and accounted for.

an adjustment report was prepared. It is informed that the reasons for the identified difference will be adjusted in the financial statements 2022 .

(b)	Debtor Balances at Regional Offices	7,312,558	2,734,862	4,577,696	Instructions have been given in writing to mark the debtor balances in each Regional Office separately from now on.	When preparing the financial statements, the debtor balances of the Regional Offices should be accurately adjusted.
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Even though, 22 years had elapsed as at the end of the year under review for the balance of debt receivables amounting to Rs. 4,374,289 from the loan amount given to small tea plantation societies for procuring fertilizers, sprayers and scales under the Fertilizer Loan Scheme of 1998, effective steps had not been taken to recover.	From the amounts to be charged for fertilizers, liquid sprays and scales issued to small tea estate societies under the credit schemes that operated until 1998, the remaining amount to be collected after referring it to the Conciliation Boards is Rs. 4,374,289. Although it has been directed to write off 22-year-old debts that are no longer recoverable, it is informed that it could not be approved.	Steps should be taken to recover the debt balances receivable from the responsible parties.
(b) The loans of Rs. 5,916,589 that had given to four private tea factories in the year 1998 through the programme of providing colour separators had been impossible to recover from the year 2016 even	Colour separators have been given on loan basis for the introduction of new technology to tea factories in the year 1998. Out of that, it is expected to recover a sum of	Necessary steps should be taken promptly to recover the debts and the closed factories should be further

by the end of the year 2021. It was observed that the legal actions had been taken only against the Eriyagaha factory to recover the debt.

Rs. 2,436,448 through legal proceedings from the money to be collected from 04 factories for the money to be received from Eriyagaha Factory. Similarly, in releasing the liabilities, after the liquidation of the assets of the Galle Co-operative Society, it has been informed that the priority will be given to the Authority to settle the money. It is informed that it is impossible to recover the money due to closure of remaining 2 tea factories.

examined by a special committee and a suitable decision should be taken.

## 1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs. 9,155,483 received from the sale of 23 vehicles which were given under the loan basis in the year 1998 for small tea plantation development societies and the balance of Rs. 13,812,613 remained from the amount provided to pay a subsidy allowance to the farmers for soil conservation in Nuwara Eliya and Ratnapura Regional Office area by the Authority in the year 2020 had been retained in the accounts without being remitted to the Treasury by the end of the year 2021 .	The 18 of the 26 vehicles owned by the Authority are more than 20 years old. Therefore, it has been referred to the Treasury for obtaining approval to buy vehicles using this amount. There is no remittance to the Treasury because the payment of Soil Conservation Subsidy is an activity within the Action Plan of the Authority. It is informed that the money will be used to pay subsidies in future.	The balance should be remitted to the Treasury and the money should not be spent without the approval of the Treasury.
(b) The value of unclaimed cheques out of the cheques issued to the tea farmers at the Ratnapura Regional Office for fertilizer subsidy in the year 2016 valued at Rs. 4,972,951 had been shown as balances to be paid under creditors in the	This is a project that implemented from 2016 to 2018 . The investment here is Rs. 4429 million. The value of the unclaimed amount is only 0.1 per cent. As this has been brought to accounts as	The balance of the money received from the Treasury should be remitted to the Treasury or utilize for other purposes with the



financial statements and the settlement of this balance had been delayed for 05 years due to reasons for not claiming the aid.

an expenditure through the State Treasury itself , actions will be taken to prepare a special project for the Small Tea Estate Holders and to inform to the Treasury and to spend on the approval of the Board of Directors.

permission of the Treasury.

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

	<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<b>(a)</b>	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 371 (2) (b)	Only the officers of staff grade can be given an ad hoc sub imprest up to a maximum of Rs.100,000 at a time for any particular work and that amount had been given as imprest of Rs. 710,000 in 5 cases exceeding that maximum amount .	It is informed that the maximum limit has been exceeded by an amount of Rs.210,000 when dealing with a limited group of staff officers. It has been noted to act within the maximum limit as per the F.R. 371(2) (b) in future.	Advances should be given in accordance with the provisions of the Financial Regulations.
<b>(b)</b>	Establishments Code of the Democratic Socialist Republic of Sri Lanka			

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| (i) Section 12.3 of Paragraph VII                                    | If a holder of a regular post is appointed to attend to the duties, he shall be paid 2/3 of the additional remuneration he would have received if he had been appointed to work in that post, in contrary to that, an allowance of 1/4th of the initial salary of the respective post was paid as attend to the duties allowance in 03 posts.  | The matters have been reported to the Audit and Management Committee based on the recommendations given after an internal audit regarding the payment of allowances to these persons. It has been referred to the approval of the Board of Directors to implement the recommendations of the Committee . | Allowances for attending to the duties should be paid as per the provisions of the Establishments Code.  |
| (ii) Section 13.7 of the Paragraph 11                                | Although the officer covering up the duties of a vacant post is not entitled to obtain an additional remuneration , the then Regional Manager, Nuwara Eliya was appointed from 01 November 2016 to cover up the duties of the Manager (Training) position of Hanthana National Training Centre and an allowance of Rs.111,290 was paid to him on 06 April 2018, from the profit received by the Centre for the covering up of that duty. | It is kindly indicated that the said allowance is not an additional remuneration that had paid to the officer who has been appointed to cover up duties and that it is only a payment to encourage and motivate and appraise the officer.  | Payments cannot be made for the cover up of duties as per the provisions of the Establishments Code and payment of other allowances should be made only on the approval of the Treasury. |
| (c) Section 6.5.3 of Public Enterprises Circular No. PED/12 dated 02 | Although the Auditor General's reports along with the audited accounts should be submitted for tabling   | The Annual Report of the year 2019 has been sent to print on 24.03.2022 and the annual report of the year 2020 has been sent to  | The Annual Report should be tabled in Parliament within 150 days of the  |

June 2003	in the Parliament 150 days after the end of the accounting year, Annual Reports relating to the years 2019 and 2020 had not been tabled even up to the date of audit.	print on 16.06.2022 in trilingual.	end of the accounting year.
(d) Section 3.2.2 of Public Enterprises Circular No. PED/1 dated 25 May 2015	Although the additional fuel expenses incurred may be reimbursed after obtaining the approval of the Board of Directors in special cases where the monthly fuel allowance is not sufficient, the total additional fuel allowance of Rs.516,773 received by the General Manager of the Authority from the year 2020 to 26 May 2022 had been erroneously reimbursed under the approval of the Chairman .	It has been informed that the additional fuel of the General Manager should be referred to the Chairman of the Authority in future as the decision for the 541 Meeting of Board of Directors held on 01.08.2017 and to reimburse the expenses based on that approval. Accordingly, it is informed that the additional fuel allowances for the official vehicles of the General Manager have been reimbursed under the approval of the Chairman of the Authority.	Additional fuel expenses should be reimbursed after obtaining the approval of the Board of Directors.

## 1.8 Fund Management

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 9,485,310 remaining from the amount given to the Authority by the Ministry of Plantation in 2017 for the payment of flood relief included in the balance of various creditors had been invested in the call deposits	The money remained after paying the subsidies given for the flood-affected lands, in 2017 was informed to the Ministry and payments have been made for replanting, new planting and crop rehabiliy subsidies on the	The money remained after receiving for subsidies and extension activities should be remitted to the Treasury. The money should not be

without making refunds as approval of the Board of spent without applicable or incurring other Directors. Therefore, the amount obtaining the expenses on the approval of the of Rs. 9,485,310 recorded in approval of the Treasury. the account is only a nominal Treasury and actions value and it is a balance shown in should also be taken to the accounts due to the failures of accurately adjust in adjusting entries in the relevant the financial year. Accordingly, it is informed statements. that it has been recorded to be adjusted accurately through the financial statements of the year 2022 .

**2. Financial Review**

**2.1 Financial Results**

The operating result of the year under review was a surplus of Rs. 171,795,953 and the corresponding surplus of the preceding year was Rs. 406,018,644 . Accordingly, a deterioration of Rs. 234,222,691 in financial results was observed. The decrease in the sundry income by Rs. 15,658,009 and the increase in development expenses by Rs. 423,950,805 had mainly attributed for this deterioration.

**2.2 Trend Analysis in Major Revenue and Expenditure Items**

Government grants received for development activities had increased by 27 per cent and the sundry income had decreased by 82 per cent as compared to the previous year. Increase in institutional development expenses including subsidies, projects and consultancy services and repair and maintenance expenses by 56 per cent and 37 per cent respectively had further observed as compared to the preceding year.

**2.3 Ratio Analysis**

The current ratio had been 1.64:1 and 1.79:1 and the current assets ratio had been 1.3: 1 and 1.27: 1 in the preceding year and the year under review respectively

**3. Operating Review**

**3.1 Management Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
(a) Although 02 per cent that is 2,300 hectares of tea should be replanted per year to maintain the area under tea cultivation at maximum yield as	Establishing targets for planting installments in tea replanting is being done based on the land area that has been	Arrangements should be made to achieve tea replanting targets as

per the National Policy, it was ascertained that out of the 1000 hectares targeted for tea replantation as per the action plan of the year under review, only 849 hectares have been replanted as per the Annual Report.

completed for tea replanting in the years 2019 and 2020. Accordingly, Land preparation in 376 hectares and 682 hectares have been done in the years 2019 in 2020 respectively. Accordingly, there is a potential of 1058 hectares of land for a planting installments in the year the 2021 . A target of 1000 hectares of that amount has been aimed for planting under tea replanting in the year 2021. Progress had not been able to achieve on an extent of 151 hectares. Nevertheless, these lands have been inspected in the first half of the year 2022 and related payments are currently being made.

per the National Policy.

- (b) Even though the first installment of tea replantation subsidy had been paid for 996 hectares of tea land as per computerized information for the period from 2014 to 2018 of the Authority, only 833 hectares of tea land had obtained the third installment and the extent of land that has not received the second installment and the third installment was 163 hectares. Accordingly, the cost of tea replanting subsidy from the year 2014 to the year 2018 had been Rs. 2,049,289,862 and the amount turned into uneconomic subsidy was Rs. 295,145,566 . Accordingly, it was observed that 14.4 per cent of the total subsidy amount was not used for the purpose. Similarly, the Management had not drawn

Although the payment of first installments of tea replantation subsidy has been made as 996 hectares during the period from the year 2014 to the year 2018, that extent was 4892.34 hectares. However, in analysing the data of the previous years, it is clearly found that about 80 per cent of the land that is completed in a certain year is turning into replanting tea.

Arrangements should be made to direct these subsidized beneficiaries to tea cultivation or recover the money.

attention encourage these beneficiaries for tea cultivation or to recover the money.

- (c) Even though the applications were invited on three occasions in the years 2019 and 2020 to fill 04 vacant posts of Regional Manager, recruitments could not be made due to factors such as the failure of the Interview Board to give the marks accurately, elapsing more than 06 months since the applications were called. Nevertheless, even though the names recommended for promotion to the post of Regional Manager from the interview held again on 04 August 2021 had been submitted on 09 August 2021 for approval from the State Ministry, the records had been called again due to failure to submit the decision of the Board of Directors, signatures kept without dates or lack of signatures made of interview panel members etc. and although the approval of the State Ministry for the appointments was received on 05 November 2021, the appointments were given from 09 August 2021, before receiving the approval of the Ministry.
- Actions were taken to call applications from internal officers for the post of Regional Manager in accordance with the provisions of the approved revised Scheme of Recruitment. The recruitment was temporarily suspended on the recommendation of the Interview Board on 2019.08.06 calling for a report by the Authority until a formal investigation is conducted by the Ministry. Although the arrangements have been made to conduct the interview in relation to the applications called on 17.08.2020 on all three occasions, due to unavoidable reasons, the interview could not be conducted in all the three cases. After giving prior notice on the recommendations of the interview panel to the members of the Board of Directors on 06.08.2021 in order to get the approval for the recruitment in the nearest meeting of Board of Directors, the approval had been granted on 05.11.2021 by sending a Board Memorandum to the next nearest Meeting of Board of Directors (2021.08.20) .
- Promotions should be given in accordance with the provisions of the Scheme of Recruitment and without prejudice to any person after obtaining necessary approvals.
- (d) Marks were given for certificates which were not already held by the institution and included in the
- Marks have been given based on the certificates submitted to the interview panel during
- Certificates based on giving marks to candidates should

personal file under additional educational qualification during the interview for filling up the vacancies of 04 Regional Manager posts.

the interview.

be kept in their personal files.

- (e) Cracks and spalls in the concrete layer used in the access road, side walls and side drains were observed during the physical examination conducted on 26 January 2022 in the Hanthana Ratnasiri Wickramanayake National Training Centre where the construction completed in 2019 valued at Rs. 11,213,888.
- The laying of concrete in the side drain of Hanthana Training Center has been carried out in 2019. The relevant concrete mixture has been used to cover the surface of the drain and precast concrete can face to fine cracking and spalling over time and a dangerous situation will not occur as it is normal and also it is wired and strengthen.
- It should be checked and verified whether the construction is done in accordance with the Standard.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) More than a sum of Rs. 500 million of every year from 2017 to 2019, a sum of Rs.737,542,872 and Rs.1,030,214,720 of the previous year and the year under review respectively had been given for entire crop subsidies including replanting, new planting and crop rehability and it was observed that the national production contribution of finished tea production had decreased from 75.5 per cent in 2017 to 74.56 per cent in 2021 as per the Annual Report.	A 40 per cent amount has been provided as compared to the previous year for tea replanting/new planting and crop rehability programme as subsidy. Nevertheless, it has been informed that the contribution of national tea production has increased by 0.76 per cent from 73.85 per cent to 74.56 per cent in the year under review. In the implementation of the subsidy programmes mentioned above, the increase of production of tea leaves will start from 2026 and 2027.	Utilization of overall cultivation including replanting, new planting and crop rehability subsidies should be efficient and effective.
(b) The average productivity of the small tea plantation sector in the year under review was 1,241 kg of finished tea per hectare and it was	There has been no tea land census under the intervention of Small Tea Estate Development Authority after	Extension and consultancy services should be expanded to

1,958 kg in the year 2018 and the average productivity has been gradually declining from the year 2018 . Even though a huge sum had been spent annually on extension and advisory services to improve the productivity of small tea estates, the expected goals had not been achieved. Similarly, although the extension officer to tea farmer ratio required for an effective extension service was 1:1000 as per the Draft Annual Report 2021, the extension officer to tea farmer ratio in the small tea plantation sector had been 1:3210 in the year 2021 .

the year 2005 . However, it is informed that the land productivity has decreased due to the large increase in the area under tea cultivation which has been identified so far as per tea land registration 2018 carried out by Tea Board.

increase the average productivity of the small tea plantation sector and utilization of human resource should be maintained at an optimum level.

- (c) Although it had been emphasized in the introductory part of the Tea Nursery Management Guidelines prepared by the Authority that the institutional tea nurseries run by the Authority should at least cover the cost of production, the income of Mavarala, Nelligolla, Vaughan and Hadigalla nurseries had not enough to cover the expenses. Although the death rate of tea plants in tea nurseries should be maintained at less than 10 per cent as per the Section No. 4.2 of Nursery Management Guideline, the percentage of destruction of plants in nurseries in Nelligolla and Walahanduwa Tea Nurseries as at 31 December 2021 had been 17 per cent.

Small Tea Estate Development Authority is not running tea nurseries for profit making business purpose and it is simply the production of quality plants is necessary for the sustainability of the tea industry . Although the standard plant death rate is 10 per cent, the plant mortality can increase due to various uncontrolled and controlled causes. When making arrangements in respect of the nursery activities in such cases, actions will be taken with good supervision and attention. I would like to inform you that if at any time the institutional nursery incurs losses due to negligence or employee weakness, disciplinary and legal action will be taken with regard to that.

It should adhere to Nursery Management Guidelines and actions should be taken to maintain a low level of plant mortality by new alternative plans.



- (d) Registration, control and providing assistance to the members of Tea Small Holding Development Societies is a role of the Authority and a sum of Rs.2,076,761 had been spent for the same in the year under review. Even though the number of societies had increased from 1,475 in 2019 to 1,484 in 2021, the number of society members had decreased by 50,369 that is 15 per cent from 329,963 to 279,594 respectively from the year 2019 to the year 2021 .
- Although the number of societies have been increasing from the year 2018, it is observed at present that a trend of weakening of society activity is showing because of the factors such as indicating lack of membership and economic and social tensions due to the severe drought in the first quarter of 2020 and the current Covid-19 epidemic situation, because of the high increase in the price of inputs such as fertilizers and agrochemicals as a result of failure of paying the annual society membership fee prescribed by the Constitution to the Society.
- Steps should be taken to improve the performance of Tea Small Holding Development Societies.
- (e) It was expected to motivate the nursery holders for the production of quality and standardized tea shoot twigs in the tea sector from the special project of 25 million tea plants commenced in the year 2020 by the provisions of the Sri Lanka Tea Board . Accordingly, a sum of Rs. 100,000 and other allowances for 25,000 tea plant capacity for plant production nursery holders, a sum of Rs.200,000 and other allowances for 50,000 tea plant capacity for plant production nursery holders had also been given. However, out of 781 nurseries, 207 nurseries that is, 26 per cent were not operational from the year 2020 to the year under review. Similarly, the number of nurseries that were last inspected was 82 . Accordingly, out of 781 nursery holders who
- Advices have been given to Regional Managers to take legal actions in respect of nurseries who are not active from the nurseries selected for the special project of 25 million tea plants after receiving benefits. The Regional Managers are working for this and arrangements are being made to select new nurseries for the recovered financial and material aid and provide the same financial and material aid to them.
- Guidelines should be made to make the project successful through the providing benefits to appropriate nurseries and increasing the level of supervision.

received financial and material assistance the number of nurseries running successful is 82 and it is only 10 per cent of the total number of nurseries.

- (f) A sum of Rs. 1,643,614, had been shown in the financial statement as at 31 December 2021 as deposit payable for tea shoot twigs in relation to the Kandy, Galle, Matara Regional Offices and they were the deposits made by farmers since 2008. These are brought forward in the account for a long time and actions had not been taken to settle these with appropriate payment to the farmers.
- Kandy, Galle and Matara offices should reduce the money for plants in the payment of subsidies and issue plants to that amount. However, due to issuing less than the amounts that should be issued according to the capacity of the nursery, it has been shown in the financial statements as the amount payable to farmers furthermore from 2008. It is informed that the arrangements will be made and settled in the year 2022 .
- Actions should be taken to reconcile and settle payable deposits.
- (g) There is a property loan balance of Rs. 1,093,035 pertaining to an employee of the Kalutara Regional Office that could not be recovered at the end of the year under review and the situation had occurred because the Authority had not obtained the insurance cover from the loan applicant before issuing the loan while providing the housing loan. After the death of the debtor on 03 January 2014, the Power of Attorney was cancelled and the deed was returned before the debt was collected and the Authority had not made arrangements to identify the officers responsible for this offence.
- The housing loan scheme of the Authority operates on a revolving fund raised by the employees. Accordingly, in case of requests made by the trade union to avoid prejudice to the employee due to non-payment of the housing loan given to the employees of the Authority by the Insurance Corporation after the death of the employee, the Power of Attorney of the relevant property has been released on the orders of the Chairman. As the relevant housing loan system operates under a cyclical system established by the employees, an amount up to Rs. 20 lakhs is being implemented on the basis of the institutional circular apart from the housing loan
- Actions should be taken in terms of the Establishments Code and related circulars regarding property loan recoveries.

schemes of the government. Accordingly, there is no government money in this housing loan fund.

### 3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
<p>(a) A sum of Rs. 1.2 million high shade plants were planned for free distribution during the year 2021 to small tea plantation owners under the Special Programme of High Shade Plant Production and financial provision of Rs. 20,000,000 had been provided to the Regional Offices for this. However, as a result of the difficulties in procuring planting materials the number of potted plants was only 623,478 . Likewise, a sum of Rs. 17,085,356 out of the provision had not been utilized by the end of the year under review and it is 85 per cent as a percentage.</p>	<p>This has been implemented as a timely and necessary programme to establish high shade to face the existing climate change. Accordingly, the programme was planned and seed supply was undertaken by the Tea Research Institute. But the Tea Research Institute has informed in May 2021 again that it could not supply these seeds. Accordingly, since then planting materials were purchased locally and arranged to be planted in pots in the Maha Season and it was possible to produce 8 lakh plants by the end of the year. Accordingly, it is informed that high shade saplings have been distributed to the beneficiaries in the Yala Season 2022 .</p>	<p>Accurate and realistic plans should be prepared and arrangements should be made to utilize the provisions effectively and efficiently.</p>

- (b) A sum of Rs. 50 million had been provided from the State Ministry of Samurdhi, Home Economics, Microfinance, Self-Employment and Business Development to the programme to develop a complete household economy focusing on 200,000 Samurdhi or low-income families. Although basic tasks include providing material support for poultry farming, bee keeping, mushroom cultivation and providing inter-crop plants to optimize land utilization related to small tea estates for low-income farmers cultivating small tea estates to promote investment by small tea estate holders, out of a sum of Rs. 16,502,442 that is 33 per cent received to the Authority had remained in the Head Office and Regional Offices without being utilized at the end of the year under review.
- A sum of Rs. 25 million in the month of October 2021 and another Rs. 25 million on 16.12.2021 have been provided to the Small Tea Estate Development Authority by the State Ministry of Company Estates Reforms, Tea and Rubber Estates Related Crops Cultivation, Factories Modernization and Tea and Rubber Export Promotion for this project. Accordingly, although bee hive boxes have been provided for bee keeping during the implementation of this project, only a maximum of six bee colonies per month can be provided to those beneficiaries. Similarly, when preparing chicken coops and paying the prescribed amount for it and giving chicks for the beneficiaries deploy in poultry farming, the chicks have to be fed at the supplier's farm for about one and a half months after ordering them. As a result of these facts, it has taken about six months to complete this project. However, all the money given for this project has been entirely paid.
- Arrangements should be made to utilize the funds of the project in planning tasks efficiently and effectively.

### 3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
A number of 7658 units of unused agricultural equipment like water motors, liquid sprayers, forks, mamoties, axles,	Due to the Presidential Election in the last half of 2019, the distribution of	Arrangements should be made to promptly distribute

pruning knives and hoses etc. valued at Rs. 97,596,842 purchased to be distributed to small tea estate owners by Ministry of Plantations and Small Tea Estate Development Authority from time to time from the Rs. 250 million provided as per the Annual Budget Proposals 2018 it had been stored at the Head Office and Regional Offices as at 27 December 2022 . Because these stock items had been kept unused in the warehouse for a long time, cases where the warranty period had been exceeded were also observed..

agricultural equipment was not done and actions were taken in the year 2020 to distribute these agricultural equipment. Nevertheless, due to the Covid epidemic situation and travel restrictions in the country, the agricultural equipment could not be distributed. After that, Regional Offices were made aware on 16.11.2021 to complete the distribution of all agricultural equipment with the approval of the Chairman. A number of 496 water motors and 153 liquid sprayers had left in the storage of the Head Office. Regional Offices have been informed to arrange to obtain those agricultural equipment before 31.08.2022 and distribute to small tea estate holders.

### 3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Without appointing a Technical Evaluation Committee as per Section 2.8.4 of the Procurement Guidelines 2006 for purchase of Compost Raw Material Shredding Machines, 08 machines for shredding of compost raw materials had been purchased in June 2021 for Rs.2,300,000 using direct contract method from Sri Lanka State Trading (General) Corporation for the commencement of the production of compost manure based on a specification submitted by the	According to Section 2.8.5 (b) of the Procurement Guidelines, it has been stated that the Head of a Department should decide on the need for a Technical Evaluation Committee. Arrangements have been made to purchase related machines through the Sri Lanka State Trading (General) Corporation by obtaining specifications of a composting machine of a	Procurement activities should be done in accordance with Procurement Guidelines.

Manager (Development) of the Authority. A Technical Evaluation Committee had been appointed after the purchase and although the Technical Evaluation Committee had met on 28 October 2021, no contribution whatsoever had been given for this procurement. Further, even though the project has identified the amount of compost fertilizer expected to be produced from the 08 Regional Offices as 40 metric tons of 05 metric tons monthly, only a stock of 37 MT had been produced during a period of 07 months due to purchase of machines which are not suitable for the requirement and have sufficient capacity.

more easily maintainable design from the Manager (Development) of the Development Division, where the process of manufacture of compost manure is carried out by the Authority on the basic specifications of a machine.

- (b) An amount of MT 1,255 of fertilizer had been purchased by the Authority for Rs.37,650,000 from 07 private and public institutions on the basis of purchasing and distributing fertilizers containing Nitrogen, Potassium and Phosphorus required for tea plant cultivation at the government control price and reimbursing the money from the farmers. Although after receiving the goods, Goods Received Note should be issued by the Officer-in-charge by ensuring that the goods conform to the specifications and other agreed terms as per Section 8.12.3 of the Procurement Guidelines, Standard Certificates and Goods Received Notes issued by Regional Offices pertaining to the 605 metric tons of fertilizer valued at Rs.18.1 million that was given to Regional Offices to be given to small tea plantation owners were not furnished to audit. Therefore, it was not possible to check the receipt

The T-200 and T-65 Fertilizer for tea plantation have been purchased at controlled price and supplied directly from fertilizer companies to Regional Offices. Accordingly, Goods Received Notes have been issued by Regional Offices as per the quantities of fertilizers received. It is informed that the fertilizer has been issued after collecting money from the small tea plantation owners. Accordingly, it is informed that the money collected from the sales to small tea estates have been settled by the Regional Offices to the Head Office without outstanding.

Certificates should be obtained from the Regional Offices and submitted that the fertilizers conform to specifications and the stocks were received.

and distribution of this fertilizer during the audit.

- (c) Even though the arrangements were made to purchase 13,000 metric tons of Dolomite from the Sri Lanka State Engineering Corporation for Rs. 101,762,000 under the budget provision 2021 of the Authority in expectation of providing 300 kg of Dolomite free of charge, a formal agreement had not been entered into in terms of Section 8.9.3 (b) of the Procurement Guidelines 2006 . Similarly, even though this entire amount that is Rs. 101,762,000 had been included along with transportation costs as development expenses in the financial statements 2021, it had been provided 533 metric tons of Dolomite valued at Rs. 2,132,000 that is only 4 per cent of the total order quantity to the respective Regional Offices even by 31 May 2022 . The transportation cost for that was Rs. 2,062,350 and the amount to be supplied was 12,467 metric tons. Accordingly, it was observed in audit that there will be a huge additional cost of transportation in the future due to the delay in the supply.
- The amount of Dolomite to be obtained is a very big order and it was difficult to find any supplier who could supply that entire order and it was observed that they charge high prices . Accordingly, the orders were placed for the purchase of Dolomite at a minimum price from the State Engineering Corporation of Sri Lanka as a government agency providing Dolomite at minimum prices.
- Arrangements were made by the Authority for the purchase of Dolomite without taking any financial risk by making payments based on the payment for the amount of supplying of Dolomite.
- After that, the societies have agreed to collect the additional amount for transportation from the small tea plantation owners and pay it to the respective institution for transportation. It is informed that the further arrangements are being made accordingly.
- Arrangements should be made to enter into a formal agreement as per the Procurement Guidelines and supply and distribution of Dolomite should be efficient and effective.

### 3.6 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Although the number of approved Zonal Tea Development Extension Officer and Tea Inspector Extension	As the further activities related to recruitment had been temporarily suspended	Recruitment for essential positions to carry out the

Officer in the year under review were 26 and 144 respectively, the number of regular officers were 17 and 124 respectively. Accordingly, it is observed in audit that the non-filling of vacancies caused by these officials who are in line relationship with tea farmers and societies had directly affected the success of the subsidy programme of the Authority.

according to the instructions of the letter No.DMS/Policy/Recruitments of the Ministry of Finance issued on 20.11.2019 according to the fact that an election period for the year 2019 has been announced, the filling of Tea Inspector Extension Officer vacancies has been delayed and as a result of a case filed by several Tea Inspector Extension Officers regarding the recruitment of Regional Tea Development Extension Officers it has not been possible to make related recruitments.

functions of the Authority should be expedited and the approval should be obtained for staff amendments as necessary.

### 3.7 Vehicle System Management

#### **Audit Observation**

After sending of cab No. 52-2605 to a garage at Nawalapitiya under Order No. 19468 dated 23 February 2016 for repairs without following the procurement process, it had been handed over to the Head Office in the year 2019 removing the spare parts of the vehicle by making damages. The Authority had not taken legal actions against the responsible officers and the garage owner.

#### **Comments of the Management**

A complaint was forwarded to the Thalangama Police Station to take legal actions regarding vehicle No. 52-2605 and it has been informed that the complaint should be made to the police in the area where the garage is located and it is kindly informed that the relevant complaint will be attended and filed promptly by the officers of the Head office accordingly.

#### **Recommendation**

Legal actions should be taken against the responsible officers and the garage owner.