

Tea Research Board - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tea Research Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of Financial Performance, 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, Tea Research Board Act No. 52 of 1993 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 1.5 of this report.

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either 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 Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope (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 Board's 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 Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause 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 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 the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Assets and liabilities should not be offset in the financial statement in terms of Paragraphs 48 and 49 of Sri Lanka Public Sector Accounting Standards 1 and although assets and liabilities should be reported separately, since a sum of Rs.4,713,704 receivable to the Board for ongoing projects had been deducted from non-current liabilities without accounting for as a receivable balance, the current assets and non-current liabilities of the Board had been understated by that amount.	Since the activities related to these projects should be completed within the relevant period, debit balances have been reported as the expenses of the project have been borne until the relevant funds are received. As the submission of balances belonging to the same group of accounts together in the financial statements is ease for use, credit balance accounts and debit balance accounts have been presented under Notes.	Assets and liabilities should not be offset against each other while preparing financial statements in terms of Sri Lanka Public Sector Accounting Standards.

- | | | |
|--|--|--|
| <p>(b) Even though a provision of Rs.1,289,006 had been made for the payment of incentives relating to the period of 2014 and 2019 of the employees of St. Coombes Estate in terms of Paragraph 69 of Sri Lanka Public Sector Accounting Standards 8, actions had not been taken to carry out a review and adjust in the accounts even at the end of the year under review.</p> | <p>Actions will be taken to carry out a review and adjust the accounts during the accounting year 2024 .</p> | <p>Actions should be taken to review provisions and adjust in the accounts in terms of Sri Lanka Public Sector Accounting Standards.</p> |
| <p>(c) Although when an entity recognizes an increase in net assets as a result of a non-exchange transaction, it should be recognized as an income in accordance with Sri Lanka Public Sector Accounting Standards 11, the grants of Rs.34,475,431 recognized during the year under review had not been identified as income in the statement of financial performance.</p> | <p>An amount of Rs.429,910,000 shown in the financial statements as recurrent income and an amount of Rs.86,527,960 which was the recognized income for the year 2023 for capital assets obtained in previous years from state capital grants had been accounted for as deferred income.</p> | <p>Income should be accurately accounted for in terms of Sri Lanka Public Sector Accounting Standards.</p> |
| <p>(d) A number of 10,629 valuable high shade trees like Mahogany, Jackfruit and Eucalyptus planted in the grounds and plantations of the Board had not been identified as consumable biological assets and the value thereof had not been assessed and accounted for in terms of Paragraphs 13 and 16 of Sri Lanka Public Sector Accounting Standards of 18 .</p> | <p>Preliminary works are being done with the State Timber Corporation to assess the value of identified trees.</p> | <p>The value of biological assets should be assessed and accounted for in terms of Sri Lanka Public Sector Accounting Standards.</p> |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As the depreciation value of the machinery and equipment Board had been understated by Rs.445,401, the surplus of the year under review had been overestimated by that amount.	Actions will be taken to correct the accounting error in computation of depreciation when preparing the financial statements for the accounting year 2024 .	Depreciation should be computed and accounted for accurately in accordance with accounting policies.
(b) Since 03 vehicles registered under the Sri Lanka Tea Board, which are not owned by the Tea Research Board had been revaluated to a Rs.3,750,000 and included in the financial statements of the Board, the property, plant and equipment and the revaluation reserve had been overstated by that amount.	Repair works of vehicle No. 32-1809 had been completed and the documents had been handed over to the Department of Motor Traffic and actions are being taken to dispose the vehicle No. 90-6217 as per Public Finance Circular No. 01/2020. Due to lack of budgetary provision to purchase an engine for the repair of vehicle No. 32-1806 it has been impossible to take further actions in respect of the vehicle.	Only the assets owned by the Board should be revaluated and accounted for.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
A sum of Rs.494,194 receivable to Tea Research Board on sales of tea to Tea Small Holdings Development Authority, Ministry of Plantation Industry and Tea Board in the years 2012	The Estate has made arrangements to send letters to these institutions informing them about the amount receivable.	Actions should be taken without delay to recover this long term debt receivable to the Board from three active institutions.

and 2013, had been accounted for debtors of the St. Coombes Estate and, the Board was unable to recover the amount even at the end of the year under review.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) The Board had not taken actions to settle the creditors balances to be paid to various wholesale suppliers of St. Coombs Estate from 02 to 10 years totalling Rs.1,931,878 even by the end of the year under review or to make necessary adjustments for creditors who had confirmed to be unclaimed.	Arrangements are being made to pay a sum of Rs.137,632 after checking documents and it was recommended in the Audit and Management Committee not to credit balance of Rs.1,682,514 to the income until matters relating to financial irregularities at St. Coombes Estate are resolved. Actions will be taken to check the documents and pay the remaining amount of Rs.111,730.	Actions should be taken to clear outstanding balances promptly and make necessary adjustments immediately for the creditors who are confirmed to be unclaimed.
(b) The balances of Rs.480,000 and Rs.699,717 for more than over 03 years to be paid by the Board to the Tea Small Holdings Development Authority and the Treasury respectively had not been paid even by the end of the year under review.	Actions will be taken to forward a paper to the Audit and Management Committee Meeting and to be settled in the year 2024 .	Steps should be taken to settle outstanding balances promptly.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Paragraph 6.6 of Public	The Annual Report of the Board for the year	It is expected to make necessary arrangements	The Annual Reports of the

Enterprises Circular No. 01/2021 dated 16 November 2021	2022 had not been tabled in the Parliament by 01 July 2024.	to table the Annual Reports in the Parliament as soon as possible.	Board should be tabled in the Parliament on the due date in terms of referred Circular.
(b) Public Administration Circular No. 25/2014 dated 12 November 2014	Although 93 employees who had been recruited on temporary or casual basis and worked for more than 180 days had been given permanent appointments with effect from 24 October 2014, the approval of the Department of Management Services had not been obtained for that.	Arrangements have been made to refer to the committee of officials appointed by the Cabinet of Ministers to review the recruitment process in the public service and receive the necessary approvals..	Actions should be taken to make appointments on the approval of the Department of Management Services and to confirm .

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs. 12,739,502 and the corresponding surplus for the preceding year had been Rs. 77,885,774 . Accordingly, a deterioration of Rs.65,146,272 was observed in the financial result . The decrease of profit of St. Joachim and St. Coombs estates in the year under review as compared to preceding year by 65 per cent had mainly attributed to this deterioration.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The tea sales income by 4 per cent, fixed deposit interest income by 20 per cent, and green leaf sales income by 24 percent had increased and travelling expenses and supplies and consumption expenses had increased by 49 per cent and 28 per cent respectively when comparing major income and expenditure of the year under review with the previous year.

2.3 Ratio Analysis

The current and quick asset ratios were 4 : 1 and 3 : 1 in the year under review and the ratios of the last year also had been 4:1 and 3:1. Due to the stock and short-term investments were Rs. 241,363,431 and Rs. 219,821,063 in the years 2023 and 2022 respectively, an over working-capital status had indicated.

3. Operating Review
3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
<p>The equipment purchased from India on 24 November 2017 at a cost of Rs.12,554,583 (Walk in Type Environmental Controlled Facility) to study the adaptive responses of tea plant to climate change under special projects of the Board had remained idle and could not be used for research though 5 years have elapsed due to non-conformity to the expected specifications and its performance not being at the expected level and actions had not been taken up to now to identify the officials responsible for the said procurement and take formal actions in that regard.</p>	<p>The Plant Physiology Department has informed that the machine have not conformed to the specified performance after installation and since the domestic and foreign suppliers have not responded well in respect of the issue of the respective machine not conforming to the specifications of the Tea Research Institute and breach of the terms of the agreement by the supplier, actions have been taken to file a case in order to receive the amount of Rs.12,554,583 and to obtain a legal interest on the aforesaid amount until it is paid.</p>	<p>Losses should be recovered by expediting legal actions against the responsible parties.</p>

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the Board had constructed regional office buildings in Walahandua, Deniya and Kottawa in lands belonging to the Land Reform Commission, Talawakele Plantation Company and the Government respectively by incurring an expenditure of Rs.73,933,378 and accounted for as assets of the Board, the title of the lands had not been</p>	<p>Since Walahanduwa Estate has been brought under the Land Reform Commission and it has been impossible to take a decision regarding the legal ownership of the over 01 hectare land possessed by the Tea Research Institute until the order of the petition filed by the State Plantation Corporation in respect of</p>	<p>Actions should be taken to promptly take over the lease deeds or legal title of the lands and to accurately account for the assets.</p>

transferred to the Board.

this Estate in the Appellate Court. As the extent of land of Kottawa Advisory and Extension Centre is more than 50 acres, actions have been taken to send a request letter to the Ministry of Agriculture and Plantation to seek approval of Cabinet of Ministers. Necessary actions are being taken to obtain the approval of the golden shares holder and to obtain the concurrence of the Secretary to the President to get the lease deed for Deniyaya Advisory and Extension Centre.

- | | | |
|---|--|---|
| <p>(b) Due to the breach of the agreement entered into with the Board from 2005 to 2009 by 04 officers who went abroad on study leave with full pay, did not return to duty and left service before completion of compulsory service after returning to service, the respective bond value of Rs 15,054,891 had not been recovered even by the end of the year 2023 .</p> | <p>Actions have been taken to file a case by the institution for the bond value.</p> | <p>Legal actions should be expedited in respect of breach of contract.</p> |
| <p>(c) The task of establishing a processed container showroom for a tea stall in St. Coombs Estate since 2018 had not been completed until now and an amount of Rs. 760,604 spent for that had been accounted for as work-in-progress.</p> | <p>An advance has been paid to a private firm to start a tea stall in Nuwara Eliya Town. The Legal Officer of the Ministry has advised the Research Institute in a letter to conduct a field observation and find out whether the respective container is decaying in the premises and to inform a</p> | <p>It should act without delay to complete the works on the container showroom promptly or to recover the money through legal actions and actions should be taken to accurately adjust the completed tasks in accounts.</p> |

responsible person of that institution with a telephone number where he can be contacted.

- | | | |
|---|--|--|
| <p>(d) The contract to create, implement and maintain a management information system for the Sri Lanka Tea Research Board was awarded to a government company on 22 April 2020 for an amount of Rs.4,228,700 and an advance amount of Rs.1,141,749 had been paid to the institution on 20 August 2020. Although the works should be completed within 120 days from the date of issue of orders as per the bid documents submitted by the service provider, the activities thereon had not been not completed though 4 years had elapsed by June 2024 .</p> | <p>The supplier company has got extended the performance bond dates and the design works are being carried out and the production activities of the modules of human resource management, payroll, goods and warehouse control, finance and accounting, maintenance and service are being done in the final stage at the moment.</p> | <p>Actions should be taken to complete the activities of Management Information System promptly.</p> |
|---|--|--|

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Even though an area of 1.367 hectares of Lamelyer Estate, Thalawakelle, owned by the Tea Research Board, including the factory and all buildings had been leased out to a private company in the year 2003 for a period of 50 years, due to failure of payment of rent as per agreement, though the relevant property was re-acquired in the year 2016 and</p>	<p>Since the restrictions have been placed on disposal of state lands, arrangements have been made to seek advice from the Ministry on the next steps to be taken for that and necessary further actions will be taken by appointing a committee and its observations regarding the use and maintenance of land, buildings and other assets of</p>	<p>Necessary actions should be taken to effectively utilize the properties belonging to the Board without delay.</p>

also 08 years had elapsed from the date of acquisition up to July 2024, those assets had remained without being utilized. the estates belonging to the Tea Research Institute including Lamillier Estate.

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Staff Provident Fund of the Tea Research Board had been certified by the Labour Commissioner on 30 October 2014 as an approved provident fund with effect from 01 June 1959. Although the Board of Trustees of the Fund should consist of seven members, including the Director of the Tea Research Institute (Chairman of the Board of Trustees), two members nominated by the Chairman of the Fund from among the Directors, two members appointed by the Annual General Meeting from among the members of the Fund and two officers of the Tea Board who are not members of the Fund nominated by the Sri Lanka Tea Board in terms of Section 4 (i) of the Code of Management Rules of this Provident Fund, The Chairman had not appointed the two members of the Tea Board to the Board of Trustees even by 01 July 2024 .</p>	<p>It has been adopted in the Annual General Meeting held in December 2022 to amend the number of members of the Board of Trustees of the Tea Research Institute Staff Provident Fund to five. The relevant letter has been forwarded to the Labour Commissioner to carry out the related amendments and necessary steps will be taken to obtain approval for the relevant amendments.</p>	<p>The funds of the officers of the Tea Research Board should be maintained efficiently and by taking actions to appoint and amend the Board of Trustees in accordance with the Code of Management Rules of the Provident Fund.</p>

- | | | |
|--|---|---|
| <p>(b) Due to financial fraud in 2017 and 2018 at the St. Coombs Estate belonging to the Board, although a balance of Rs. 10,321,858 had remained as debtors for more than 05 years, the Board had not taken actions to complete the relevant investigations and recover the money from the responsible parties.</p> | <p>The Government Advocate who works on the matter has informed the institution that the Attorney General's Department has made arrangements to prosecute this financial fraud in the future.</p> | <p>Investigations into financial fraud should be finished without delay and necessary actions should be taken as per the judgments.</p> |
|--|---|---|

3.5 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although there are 36 Senior Management posts in the approved staff of the Board, 27 posts out of these had remained in vacant. Out of these vacant posts, although 22 posts including 03 Head of Division Posts, 14 Chief Research Officer Posts and 05 Chief Consultant Officer Posts should be filled by internal promotions these posts had remained in vacant for more than 04 years.</p>	<p>The post of Head of Division is an internal promotion and there are no internally qualified officers for that position at present and a letter has been forwarded to the Public Service Recruitment Process Review Committee through the Ministries by now to get the necessary approval to recruit for other positions and further actions are to be taken on its approval.</p>	<p>Recruitment should be done soon for the essential posts in the approved staff for which the vacancies exists and revisions to the Scheme of Recruitment should also be got approved on the requirement of the Board.</p>
<p>(b) Sixty two per cent of the Operations and Advisory Officer posts of the Board, 53 per cent of Technical and Non-technical Management Assistant posts, 57 per cent of Primary Level (skilled) posts and 54 per cent of Primary Level (unskilled) posts had remained vacant. Similarly, although there were 17 posts of Senior Academic and</p>	<p>Out of the posts remained in this vacancies, appointments have been made in June and July 2024 for 10 posts of accountants and operational and enforcement categories and a letter has been sent to obtain the approval of the Department of Management Services to conduct interviews for the post of Procurement Officer.</p>	<p>Actions should be taken to recruit promptly after obtaining necessary approvals only for essential posts in the approved cadre.</p>

Research Officer and 27 posts of Academic and Research Officer, 5 and 15 posts respectively had remained vacant by the end of the year under review.

Competitive exams have been held, for the recruitment to fill the vacancies remained in Management Assistant - Non-technical posts and it is stipulated to conduct interviews and make appointments on the approval of the Board and the Ministry.

The approval has been given to fill 05 posts by the labour force for primary service category posts by the Public Service Recruitment Process Review Committee and the necessary justifications have been forwarded to the Ministry. A letter has been sent to the Review Committee of the recruitment process in the public service through the Ministries for the vacancies of other posts.

- (c) Activities on preparation of a procedural manual related to the formulation of laws, rules for Human Resources Management and obtaining the approval of the Secretary of the Treasury had also not been completed during the year under review.

A letter has been forwarded to the Director General, Department of Public Enterprises to review the draft of the updated Office Procedure Manual of Tea Research Institute.

Efficiently complete the preparation of procedural manual related to formulation of rules and regulations for Human Resources Management and necessary arrangements should be made on the basis of proper approvals.